EXECUTIVE OFFICE OF
THE PRESIDENT
OFFICE OF MANAGEMENT
AND BUDGET

MAJOR POLICY INITIATIVES

FISCAL YEAR

1987

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Summary Table

Summary of Deficit Reductions

(Outlays, in millions of dollars; parentheses indicate increases from current services)

	1986	1987	1988	1989	1990	1991
HIGH PRIORITY PROGRAMS						
National Security Programs	....	2,453	4,252	5,987	8,488	12,400
Diplomatic Security	(87)	(628)	(731)	(1,013)	(1,061)	(844)
U.S. Space Programs	23	4	(55)	(42)	25	(339)
Enforcement of Drug Laws	....	(146)	(181)	(186)	(188)	(190)
Aviation Safety	(1)	(17)	233	357	427	610
AIDS Research and Control	15	15	9	13	17	20
Subtotal, High Priority	**(50)**	**1,681**	**3,527**	**5,116**	**7,708**	**11,657**
PRIVATIZATION						
Power Marketing Administrations	....	162	1,597	1,151	5,430	4,392
Naval Petroleum Reserves	....	1,018	1,859	(494)	(454)	(428)
GSA Asset Sales	....	462	568	178	178	178
Compensatory Education Vouchers	....	(3)	(49)	1	100	189
Housing Vouchers	1,140	3,818	5,108	5,839	6,386	6,858
Federal Housing Administration	....	146	(93)	(42)	23	66
Export-Import Bank Direct Loans	....	183	329	451	525	384
Overseas Private Investment Corporation	....	4	6	8	4	5
Crop Insurance	....	338	447	544	589	645
Amtrak Subsidy	....	617	644	668	689	706
LANDSAT Subsidy	....	54	60	41	13	2
Subtotal, Privatization	**1,140**	**6,799**	**10,476**	**8,345**	**13,483**	**12,997**

SUMMARY TABLE, continued

	1986	1987	1988	1989	1990	1991
FEDERALISM						
Ground Transportation Block Grant	26	82	666	1,394	1,454	2,205
Federal-Aid Highways	...	446	675	1,249	1,943	2,520
Pollution Control Block Grant	...	12	26	37	48	58
Waste Treatment Construction Grants	...	25	128	374	742	1,281
Primary Care Block Grant	11	42	68	91	112	129
Justice State Grants	41	122	193	194	198	199
Cooperative Extension Service Grants	...	160	185	227	239	248
Community Development Block Grant	...	20	390	738	557	530
Community Services Block Grant	124	306	383	397	410	420
Subtotal, Federalism	**202**	**1,215**	**2,714**	**4,701**	**5,703**	**7,590**
CHARGES FOR GOVERNMENT SERVICES						
Park and Forest Recreation	...	70	71	75	77	78
Meat and Poultry Inspection	...	350	353	356	359	361
Coast Guard	...	238	476	476	476	476
Navigation	...	203	223	240	255	270
IRS and Customs	60	913	910	924	937	950
Ocean Sportfishing License	...	20	30	50	50	50
Pension Guaranty Premium	200	199	214	227	235	241
Uranium Enrichment	...	235	270	270	270	270
Federal Timber and Minerals	...	308	267	268	270	271
Subtotal, Charges for Services	**260**	**2,536**	**2,814**	**2,886**	**2,929**	**2,967**

SUMMARY TABLE, continued

	1986	1987	1988	1989	1990	1991
ELIMINATION OF INEFFECTIVE, DUPLICATIVE, OR UNNECESSARY PROGRAMS						
Interstate Commerce Commission		36	49	50	51	51
Urban Development Action Grants	11	61	148	188	273	323
Economic Development Administration and Appalachian Regional Commission	18	74	164	240	304	346
Small Business Credit Programs		1,445	1,961	1,822	1,244	948
Legal Services Corporation		266	315	328	340	353
Conservation Financial Assistance Programs	62	243	479	512	534	549
Selected Maritime Subsidies	48	131	160	168	170	170
Sea Grants and Coastal Zone Management State Grants	39	65	77	81	83	86
The New GI Bill		9	(28)	9	96	144
Subtotal, Eliminations	**178**	**2,330**	**3,325**	**3,398**	**3,095**	**2,970**
SOCIAL SERVICE REFORMS						
Medicare	17	4,681	7,738	10,632	13,693	17,039
Assistance for Dislocated Workers	(2)	(29)	(7)	17	32	36
Job Corps	17	197	279	297	302	305
Summer Youth Employment Program		176	133	208	208	208
Vocational Education	4	152	359	447	486	510
Student Aid	124	1,315	2,406	2,582	3,080	3,474
Health Professions Training Subsidies	78	147	229	237	244	249
Child Nutrition Subsidies		697	826	918	1,001	1,091
Medicaid		1,280	2,622	3,463	4,345	5,347
Food Stamp Administration	69	313	403	506	572	572
Aid to Families with Dependent Children		238	233	231	239	231

SUMMARY TABLE, continued

	1986	1987	1988	1989	1990	1991
Special Supplemental Food Program for Women, Infants, and Children	....	14	69	77	81	83
Veterans Medical Care	10	579	983	1,285	1,307	1,329
Work Incentive Program	38	191	222	235	243	249
Refugee and Entrant Assistance	21	104	89	91	99	83
Biomedical Research	42	353	493	816	974	1,106
Indian Health Service	28	111	148	183	209	238
Railroad Retirement	3	161	179	182	181	178
Subtotal, Social Service Reforms	**449**	**10,680**	**17,404**	**22,407**	**27,296**	**32,328**
GOVERNMENT MANAGEMENT REFORMS						
Credit Program Phaseouts and Reductions	240	1,006	586	558	1,476	1,509
Credit User Fees	....	206	121	310	368	367
Federal and Federally Sponsored Credit Agencies	....	60	289	589	900	1,251
Loan Asset Sales	....	1,726	747	(30)	(687)	(1,094)
Civil Service Retirement	....	1,604	2,571	3,179	3,842	4,411
Federal Employee Health Benefits	(11)	1,186	677	790	1,043	1,278
Strategic Petroleum Reserve	....	399	374	368	373	371
National Defense Stockpile	....	250	500	500	500	500
Subtotal, Government Management	**229**	**6,437**	**5,865**	**6,264**	**7,815**	**8,593**
DEFICIT REDUCTION SUMMARY						
TOTAL, MAJOR POLICY INITIATIVES	**2,408**	**31,678**	**46,124**	**53,117**	**68,029**	**79,102**
Net Effect of Other Actions	**386**	**6,509**	**10,275**	**18,323**	**22,501**	**26,102**
TOTAL DEFICIT REDUCTION	**2,794**	**38,187**	**56,399**	**71,440**	**90,530**	**105,204**

High Priority Programs

NATIONAL SECURITY PROGRAMS

Department of Defense

The Department of Defense equips, operates and maintains military forces needed to protect the Nation and its allies from foreign aggression. The President's budget reflects savings from lower inflation and pay, while maintaining the real program level for FY 1987 consistent with the agreement with Congress on the 1986 Budget Resolution.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	286,802	278,412	314,652	337,484	361,487	386,788	412,600
Outlays	245,371	258,425	276,718	294,952	319,287	343,988	369,000
President's budget:							
Budget authority	n.a.	278,412	311,600	332,400	353,500	374,700	395,500
Outlays	n.a.	258,425	274,265	290,700	313,300	335,500	356,600
Deficit reduction:							
Outlays	n.a.	....	2,453	4,252	5,987	8,488	12,400

PROGRAM HISTORY AND CURRENT STATUS

During the 1970's the United States severely underfunded defense programs.

- From 1970 to 1981, United States defense spending declined nearly 20% in real terms.
- As a percentage of the GNP, defense spending declined to below 5% by 1978 from a level of about 9% during the 1950's and early 1960's.
- In the decade of the 1970's, the Soviets outpaced our spending for defense by about 50%.

In the past 5 years, the administration has reversed the decline in defense spending and has made significant progress in strengthening our military capabilities. The United States now possesses the most effective military it has ever had in peacetime.

- There have been remarkable improvements in personnel quality and retention throughout all components of the military services.
- Major modernization programs of all components of our strategic nuclear forces have begun, as well as exploration of the possibility of eliminating the threat of nuclear weapons through the Strategic Defense Initiative.
- The capabilities of general purpose forces have been improved significantly, including ground forces, tactical air forces, naval forces and mobility forces.
- As a consequence, the administration has been able to embark on meaningful nuclear arms reduction negotiations with the Soviets.

Congressional backsliding in FY 1986 in support of essential defense levels is a major concern.

- Congress did not abide by the agreed-to compromise of zero real growth in budget authority, but enacted a 2% real decline instead.
- After the automatic cuts required by Gramm-Rudman-Hollings, the final FY 1986 defense level corresponds to about a 5% real decline—not a pause, but a 2-year retreat in real terms.
- Defense budget authority for FY 1986 is $40 billion less than planned by the previous administration—defense outlays will be $35 billion less.
- The FY 1986 defense budget authority, enacted and then reduced by Gramm-Rudman-Hollings, is $72 billion less than the President planned 2 years ago, $36 billion less than the President's modified 1986 request, and $16 billion less than Congress agreed to in the FY 1986 Budget Resolution.

Given the stark realities of the FY 1986 outcome—a 2-year retreat advertised as a "pause"—it is now critical that the agreed-to real program levels for defense provided for FY 1987 in the budget resolution be supported.

ADMINISTRATION PROPOSAL

The administration is, therefore, proposing 1987 defense levels which provide the real program agreed to in last year's budget resolution.

- Savings from the actual dollar amounts contained in the resolution have been achieved due to lower inflation and pay assumptions.
- The proposed funding levels—providing a sustained real increase in the outyears of 3% per year—are essential simply to maintain the restored defense capability we have achieved, since there is a continual need to replace aging systems that have degraded capability.

Failure to provide these necessary increases would risk:

- a return to the problems of the previous decade—a hollow Army, ships that can't sail, and aircraft that can't fly;
- discouraging our allies from taking needed actions to strengthen their own military capabilities and inviting increased adventurism on the part of the Soviets and their allies; and
- weakening the administration's ability to negotiate a satisfactory arms reduction agreement.

If sustained, moderate increases for defense are not provided, the Nation will inevitably face the need for large catch-up increases—at much greater cost and with substantially increased risk to national security.

The American people will not—and should not—excuse a return to the neglect of the 1970's—a decade of defense decline.

DIPLOMATIC SECURITY

Department of State

The Department of State is generally responsible for the security of U.S. officials and employees abroad, except those under military commands. Following a series of attacks on our diplomatic facilities abroad, a 5-year program costing $4.4 billion has been developed to upgrade substantially the security of diplomatic operations.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	531	452	328	340	352	362	370
Outlays	208	466	410	421	395	363	362
President's budget:							
Budget authority	n.a.	1,159	1,747	1,271	1,197	857	787
Outlays	n.a.	553	1,038	1,152	1,408	1,424	1,206
Increase from current services:							
Outlays	n.a.	87	628	731	1,013	1,061	844

PROGRAM HISTORY AND CURRENT STATUS

The security of diplomatic missions has been of increased concern since several incidents of kidnapping, assassination, and mob violence in the 1970's. Although significant protective measures have been taken to counter that problem, the greatly heightened threat in this decade of terrorist bombing of embassies and assassination of officials requires extraordinary new responses.

- In 1982 an effort was undertaken to increase perimeter, entrance, and interior security at embassies and consulates, especially in unstable countries or countries having unfriendly relations with the United States.
- The second bombing of the embassy in Beirut in the fall of 1984 demonstrated that more substantial steps were required. Within weeks, the administration sought and Congress appropriated the first $110 million of what was to be a $343 million security supplemental. State began to pull together a top management team to upgrade security.

In June 1985 an advisory panel on overseas security completed a detailed analysis of the security of U.S. diplomatic missions and made major recommendations. During the past year, the State Department used the advisory panel's recommendations to develop a detailed program for administration consideration, which is embodied in the 1987 budget.

ADMINISTRATION PROPOSAL

The administration proposes a 5-year effort to improve the security of diplomatic activity in the United States and abroad. The major features of the plan are:

- consolidation of overseas diplomatic security responsibilities in the Department of State and creation of a new bureau for this purpose;

- establishment of a board of inquiry/accountability to review security breaches and recommend action against negligent personnel;
- increased protection of foreign official visitors and diplomats in the United States;
- replacement or modification of many diplomatic facilities that do not meet minimum security standards and strengthening of residential security for employees at high threat diplomatic posts;
- increased staffing, training, and professionalism for State Department security personnel; and
- additional and improved security and communications equipment to reduce the vulnerability of U.S. diplomatic missions.

The initiative will be budgeted over a 5-year period but will require 2 or 3 additional years to complete. Given the long lead time to complete new facilities and to improve security staffing and training, it is necessary to request $707 million of supplemental funds in 1986 and $1.7 billion in 1987. While the completion of this plan will not absolutely guarantee the safety of U.S. diplomatic personnel or facilities, it will greatly increase the Government's ability to conduct diplomatic relations in an orderly and safe manner.

U.S. SPACE PROGRAM

National Aeronautics and Space Administration

National Aeronautics and Space Administration (NASA) space programs include the shuttle-based system to bring about routine access to space; space-based scientific studies to increase our knowledge of the Earth and its space environment, the solar system, the galaxy, and the universe; research and development to encourage the application of space technology to needs on Earth; and the development of a manned space station to introduce a new era in man's use of space. The President's budget continues most major ongoing space projects and initiates several major new science and technology efforts to maintain U.S. space leadership.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	6,925	6,727	6,969	7,297	8,165	8,689	8,489
Outlays	6,607	6,755	6,830	6,747	7,498	8,345	8,421
President's budget:							
Budget authority	n.a.	6,701	6,988	7,364	8,323	8,721	9,159
Outlays	n.a.	6,732	6,826	6,802	7,540	8,320	8,760
Change from current services:							
Outlays	n.a.	−23	−4	55	42	−25	339

PROGRAM HISTORY AND CURRENT STATUS

The United States established itself as the world leader in space through earlier efforts involving:

- placing a man on the moon,
- the initial exploration of the solar system,
- satellite-based studies of the Earth and its space environment,
- the development of a successful communications satellite industry, and
- the development of the world's first reusable manned space transport offering routine access to space.

Continued U.S. leadership in space requires funding to maintain a balanced program of scientific research, technology development, and supporting capabilities, including the development of a permanently manned space station.

ADMINISTRATION PROPOSAL

The 1987 budget for NASA space programs provides an overall increase of $287 million in budget authority over 1986.

For the space station, the budget provides the increased funding necessary to initiate the development phase of the project, scheduled for initial operations in the mid-1990's.

- The space station will permit a permanently manned presence in space and provide versatile space facilities to take full advantage of the unique environment of space.
- Substantial international participation in the project is planned.

For space transportation, the budget provides for:

- restoring progress in the space shuttle program toward achieving routine and reliable access to space for all planned users;
- continued investments to further improve the reliability and performance of the shuttle fleet; and
- continued development of the capability to launch payloads from the shuttle to higher Earth orbits and beyond and ferry payloads to and from the shuttle.

For space science, applications, and technology, a balanced and vigorous program is maintained to continue U.S. preeminence in scientific exploration of the universe and satellite-based studies of the Earth and its environment, and research on the application of advanced space technologies.

- A new joint research program with the Department of Defense will be initiated to explore technologies for trans-atmospheric vehicles that promise to reduce dramatically the cost of access to space.
- Two major new activities will be initiated: an oceanographic research satellite (TOPEX) to measure the topography of ocean surfaces, and development of instruments for an international effort to study the physics of the interaction between the sun and the Earth.
- Key ongoing science projects will be continued, including the launch and initial operation of the Hubble space telescope to investigate the heavens, and development of the Scatterometer instrument to measure wind patterns on the ocean surfaces.
- Consistent with our initiative to keep Government out of commercial activities, flight demonstration of the advanced communications technology satellite would be dropped. This effort can be more appropriately and effectively undertaken by the private sector, which continues to develop advanced technology in this area.

ENFORCEMENT OF DRUG LAWS

Over 20 agencies in the United States Government now cooperate in Federal drug law enforcement. The President's budget for 1987 proposes increasing the already high level of resources dedicated to this important mission.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	1,645	1,627	1,654	1,680	1,704	1,725	1,742
Outlays	1,634	1,627	1,653	1,679	1,703	1,724	1,741
President's budget:							
Budget authority	n.a.	1,627	1,808	1,864	1,890	1,913	1,932
Outlays	n.a.	1,627	1,799	1,861	1,889	1,912	1,931
Increase from current services:							
Outlays	n.a.	....	146	181	186	188	190

PROGRAM HISTORY AND CURRENT STATUS

The administration considers improvements to the Federal drug law enforcement program to be one of its top domestic priorities. Over the past 5 years, the President has successfully sought additional resources for drug law enforcement in a number of agencies.

- Government-wide resources devoted to drug enforcement have grown 96% in real terms since 1981, and will total almost $2 billion in 1987.
- Beginning in 1982, the Federal Bureau of Investigation (FBI) joined the Drug Enforcement Administration (DEA) in narcotics investigations and today has over 1,200 agents devoted to this task.
- The National Narcotics Border Interdiction System, headed by the Vice President, was initiated in 1983 to help coordinate the Nation's efforts to stem drug smuggling.
- In 1983, the FBI, DEA, and 6 other Federal agencies began participating in what grew to be 13 Organized Crime Drug Enforcement (OCDE) Task Forces that, together with smaller satellite offices, place higher than normal levels of manpower and other resources in 83 cities throughout the United States.
- These task forces focus additional investigative resources on high-level narcotics traffickers who operate in organized rings. Since its inception in 1983, the OCDE task force program has been responsible for over 3,000 convictions.
- The Defense Department, which began lending assistance to the drug effort in 1981, flew over 3,000 flights in 1985 involving over 10,400 flying hours searching for ships and aircraft carrying illegal drugs into the United States, and has made available over $111 million worth of aircraft and other major equipment to civilian law enforcement agencies.

The Nation's criminal drug investigations are conducted primarily by the DEA and FBI and are targeted at uncovering and disrupting the organized networks that produce, transport, and distribute illegal narcotics.

- The Government's drug interdiction effort, whose purpose is to stop individual shipments of drugs in transit to the United States, is principally conducted by the U.S. Coast Guard and the Customs Service.
- The State Department will spend about $67 million in 1986 on programs to reduce or eliminate drug crops, targeted mainly in Latin America and Southeast Asia.
- Destruction of domestic marijuana crops is carried out primarily by the U.S. Forest Service and the DEA in conjunction with State and local law enforcement agencies nationwide.

ADMINISTRATION PROPOSAL

The administration is proposing to maintain current level funding for most drug enforcement programs. In selected, high-priority areas the budget proposes increases.

- An increase of $48 million is requested for the DEA to hire an additional 80 agents in 1987, and to initiate a multi-year plan to buy voice privacy radios for every agent and computers that will be equipped to process top secret information.
- Approximately $9 million is requested for the FBI to put in place an advanced computer system that will aid in drug intelligence.
- An increase of $34 million is requested for ongoing Coast Guard interdiction operations.

Only one program reduction is proposed—a rescission of $19 million for the Customs Service air interdiction program for 1986.

- This reduction eliminates marginal congressional add-ons, maintains the Customs program at its 1985 level, and avoids additional expenditures for a program that has not proven to be cost effective.

The increases devoted to drug law enforcement have begun to produce results, but the problems caused by illicit drug trafficking are pervasive and continuing. Only by continuing its commitment in this area can the Nation be sure of achieving results.

- The administration's request for 1987 proposes increases only in those areas that are truly essential, and combines current level funding with one reduction for the remainder of the drug enforcement program.
- This produces a government-wide drug enforcement request that offers the best chance of gaining on the war against drugs, while at the same time exercising fiscal restraint in the face of large Federal deficits.
- At the President's request level, drug related arrests by the DEA and FBI are projected to increase by 70% over 1981.
- The proposed reduction in the Customs air program reflects a reorientation of scarce resources from interdiction programs into investigations and intelligence.
- Adequate funding is provided to maintain the Customs detection capability at its 1985 level by concentrating resources on the elements most crucial to the success of the program.

AVIATION SAFETY

Department of Transportation

The Federal Aviation Administration (FAA) operates the Nation's air traffic control system and assures that aircraft and pilots adhere to stringent Federal standards. The 1987 budget includes several staffing and new technology initiatives to further improve the safety of the Nation's skies.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	5,355	4,785	4,862	4,981	5,087	5,181	5,259
Outlays	4,267	4,365	4,577	4,686	4,798	4,935	5,091
President's budget:							
Budget authority	n.a	4,786	4,819	4,642	4,650	4,652	4,656
Outlays	n.a	4,366	4,594	4,453	4,441	4,508	4,481
Deficit reduction:							
Outlays	n.a	−1	−17	233	357	427	610

PROGRAM HISTORY AND CURRENT STATUS

For all aviation users there were fewer accidents per aircraft hours flown in 1985 than in any of the last 10 years.

- Despite several fatal accidents last year involving large aircraft, commuter and general aviation aircraft had their all-time safest years.
- None of the tragic air carrier accidents in 1985 were caused by the air traffic control system.

Founded in the era of biplanes and before the advent of radar, today the FAA employs over 46,000 personnel who operate the largest and safest aviation system in the world.

- Its highly-trained experts control record high levels of air traffic, inspect aircraft, review aircraft and engine designs, maintain thousands of navigation beacons and assure that the Nation's airports meet rigid safety standards.
- The FAA has an international reputation for leadership in aviation safety.

ADMINISTRATION PROPOSAL

Launched in 1982, the FAA's multi-year $11.4 billion National Airspace System Plan is well underway. It is a broad modernization effort focusing on the entire air traffic control system. Many safety benefits are being derived from it. New systems will:

- improve controller productivity by introducing greater automation of the controllers' tasks;
- prevent air travel delays in the future by expanding the capacity of the air traffic control system to accommodate growth in air travel; and
- further reduce the already minimal risks of mid-air and runway collisions and landing and weather-related accidents.

In 1987, the administration's proposal will enable FAA to:

- add 500 air traffic controllers at busy locations;
- add 138 aircraft safety inspectors and intensify FAA inspection programs on a national basis;
- complete an evaluation of FAA operations and of aviation industry safety through special inspections;
- further strengthen its capability to enhance the security of airports and airlines; and
- expand the Nation's LORAN-C navigation system to provide a low-cost, coast-to-coast independent navigation capability.

Major progress will be made in 1987 in windshear safety:

- FAA will procure new terminal doppler weather radars to provide warnings of highly localized windshears that threaten aircraft operations at high-risk airports;
- the Government will begin to procure the next generation weather radar (NEXRAD), a nationwide doppler weather radar system funded jointly ($92 million in 1987) by FAA, the National Oceanic and Atmospheric Administration, and the Air Force;
- NEXRAD will significantly improve the long-range detection of severe weather (windshear and tornados) throughout the airspace system; and its new capabilities will complement other advances in weather prediction systems.

Overall budget savings will be achieved by reduced grants for local airport construction. In addition, new budget authority for equipment purchases is reduced somewhat because contract awards for complex systems have been at a somewhat slower pace than anticipated. Consequently, large carryover balances of previously appropriated funds are expected in 1986 and 1987.

In addition to the safety initiatives cited above, new FAA safety regulations currently under development include:

- airborne low level windshear equipment requirements to display windshear information to pilots;
- improved standards for passenger seats in new aircraft;
- automatic fire protection for aircraft galleys; and
- improved flammability standards for materials used in interiors of airplane cabins.

AIDS RESEARCH AND CONTROL

Department of Health and Human Services

The Department of Health and Human Services (HHS) attempts to stop the spread of Acquired Immune Deficiency Syndrome (AIDS) through research, technical assistance to States and localities, and education. The President's budget proposes to improve the effectiveness of the HHS AIDS effort by consolidating funding and coordinating planning through the Office of the Assistant Secretary for Health.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	109	219	222	225	228	232	235
Outlays	88	167	210	220	226	230	233
President's budget:							
Budget authority	n.a.	193	213	213	213	213	213
Outlays	n.a.	152	195	211	213	213	213
Deficit reduction:							
Outlays	n.a.	15	15	9	13	17	20

Note.—Funding summary covers Public Health Service programs; excludes $16 million appropriated for AIDS treatment demonstrations under HHS Departmental Management, and includes $10 million appropriated to the Food and Drug Administration for all years.

PROGRAM HISTORY AND CURRENT STATUS

Since the recognition of AIDS in 1981, HHS has designated AIDS as its highest public health priority, and has increasingly focused its disease research and control programs on AIDS.

- HHS AIDS spending increased from $6 million in 1982 to $213 million requested in the President's 1987 budget. Between 1982 and 1986, HHS will spend $400 million on AIDS research and control.
- HHS scientists have made impressive achievements—the AIDS virus has been identified, scientists can test blood for exposure to AIDS, and scientists know how the AIDS virus spreads.

HHS is continuing research on the causes of AIDS, and potentially effective drugs and vaccines are under study.

- Controlled clinical trials are planned for potentially effective drugs.
- All HHS agencies are cooperating closely with the drug and biotechnology industries to ensure rapid development of potentially effective drugs.
- HHS' efforts stress education as the primary means of halting the spread of AIDS.
- HHS has issued guidelines for screening donated blood, educating infected children, reducing risks for laboratory workers, and reducing risks in other work environments.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- spend $126 million to test potentially effective vaccines and drugs during fiscal years 1986 and 1987;
- spend $42 million on AIDS education during fiscal years 1986 and 1987;
- continue the intensive AIDS research and control effort;
- establish a single office in the Office of the Assistant Secretary for Health (OASH) to plan the AIDS control effort;
- request Congress to establish a single AIDS funding authority and give HHS the authority to redirect, where appropriate, up to 1% of funding from lower priority HHS programs to AIDS research and control;
- authorize the OASH coordinator to allocate AIDS funds among HHS agencies according to a comprehensive plan; and
- update the comprehensive plan as scientific breakthroughs occur and new opportunities are identified.

An AIDS coordinator will improve research flexibility and the coordination of the multifaceted AIDS program. HHS' AIDS spending plans could be adjusted more easily in response to emerging research and control opportunities. Establishment of an AIDS coordination office is consistent with congressional appeals for an AIDS "czar."

Privatization

POWER MARKETING ADMINISTRATIONS

Department of Energy

The Department of Energy operates five power marketing administrations (PMA's), which wholesale 6% of all electric power produced in the United States. The President's budget proposes that the PMA's be sold, achieving a total deficit reduction over the next 5 years of $12.7 billion.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Offsetting collections	714	447	434	462	519	462	416
President's budget:							
Offsetting collections	n.a.	447	595	2,059	1,670	5,892	4,808
Deficit reduction:							
Offsetting collections	n.a.	....	162	1,597	1,151	5,430	4,392

PROGRAM HISTORY AND CURRENT STATUS

Over the past 50 years, the Federal Government has invested in a large electrical power complex that is administered by the power marketing administrations.

- These investments include power houses at dams built by the Corps of Engineers and the Bureau of Reclamation, and transmission lines constructed by the power marketing administrations.
- Bonneville is the largest of the five power marketing administrations, meeting electrical load growth in the Pacific Northwest by marketing power from Bonneville Dam, Grand Coulee Dam, and 21 other large hydroelectric projects.
- The other power marketing administrations are Western Area, the second largest PMA; Southeastern; Southwestern; and Alaska. These four PMA's sell power from 100 Federal dams.

The Federal investment in power facilities is intended by law to be repaid to the Treasury. To date, however, meaningful repayment has rarely occurred.

- The PMA's have repaid less than 20% of the $15.6 billion Federal investment. Most of the PMA's have routinely failed to make planned repayments.
- Bonneville's debt to the Treasury grew from $2.7 billion in 1970 to $8 billion in 1984. Over this 15-year period, Bonneville repaid only $126 million of its debt.
- In 1985, Bonneville made its first meaningful principal repayment ($226 million) in over a decade. This still fell short of the level of new Treasury-financed investment ($394 million).

The PMA's sell power at subsidized rates.

- Inexpensive hydropower allows Bonneville to subsidize aluminum companies and customers of investor-owned utilities. Residential power rates in the Bonneville service area are only 46% of the national average.
- The other PMA's sell power so cheaply they must turn away new customers and ration power among existing customers.

The 1986 budget proposed reforms to restructure outstanding debt, establishing a fixed repayment schedule and imposing current interest rates.

- Congress rejected these reforms primarily because of the concern that they would substantially increase power rates.
- OMB analysis showed retail power rates would increase only slightly. Residential rates in the Bonneville service area, for example, would still be only 57% of the national average.

ADMINISTRATION PROPOSAL

The administration proposes to privatize the five PMA's. Under the proposal, the Federal Government would:

- sell all transmission and power generation facilities at Federal dams;
- retain Government ownership and control over the dams themselves, as well as authority to regulate streamflow; and
- require an agreement between the Government and the new owners of the power systems to cost share in any future investments made at the dam structures, based on the portion of power generation in the total benefits of the dam.

It is no longer an appropriate Federal responsibility to operate the PMA's.

- States, localities, and private interests are more responsive to customer needs.
- There is growing regional interest in privatization of Bonneville.

It is assumed that negotiations will begin this year, with initial privatization taking effect in 1988 for the Bonneville and Southwestern Power Administrations.

- Proceeds from the sale of these and the other PMA's will be received over a number of years, with an initial budget savings of $1.6 billion in 1988.
- Pending privatization, the budget proposes legislation to require that PMA's repay their debts to the Treasury on a fixed schedule, resulting in additional offsetting collections of $162 million in 1987.

To implement this proposal, the administration intends to:

- encourage regional and private interest in the purchase of Bonneville and the other PMA's through notices and public hearings as appropriate; and
- finally, solicit formal offers.

NAVAL PETROLEUM RESERVES

Department of Energy

The Department of Energy (DOE) owns and operates two oil fields—Elk Hills, California and Teapot Dome, Wyoming. The President's budget proposes selling these oil fields, thereby reducing the budget deficit by an estimated $2.9 billion over 1987 and 1988.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services: Offsetting collections*	694	671	605	541	494	454	428
President's budget: Offsetting collections	n.a.	671	1,623	2,400	....	....	....
Deficit reduction: Offsetting collections	n.a.	....	1,018	1,859	−494	−454	−428

*Excludes additional amounts earmarked by the Congress, starting in 1985, for defense stockpile purchases, ranging from $286 million in 1986 to an estimated $177 million by 1991.

PROGRAM HISTORY AND CURRENT STATUS

Elk Hills and Teapot Dome were originally set aside in 1912 and 1915 as naval petroleum reserves (NPR's) to provide oil for the Navy in an emergency.

In 1975, Congress agreed it made sense to sell NPR oil and gas on the open market and to rely on the strategic petroleum reserve (SPR) to meet emergency national needs.

- President Reagan reaffirmed that policy in 1981 and again in 1984.
- Consistent with the mandate from Congress and the President, the Department of Energy sells oil and gas from the NPR's competitively to the highest bidder.

Sales from the NPR's produce total revenues of $1.3 billion in 1986.

- These revenues are expected to decline 13% per year through 1991 as the fields are depleted.
- From this gross amount are deducted operating expenses (nearly $200 million annually) and windfall profit taxes ($138 million in 1986 declining to $28 million in 1991).
- Of the remaining net receipts ($953 million in 1986), 30% have been set aside by the Congress in 1985 and 1986 to finance expansion of the defense stockpiles.

ADMINISTRATION PROPOSAL

Rather than sell the NPR oil a barrel at a time, the administration proposes to sell the oil fields to the highest bidder.

There is little national security reason for the Government to continue to retain the NPR's.

- As Congress foresaw in 1975, the SPR is a much better emergency reserve because it can pump oil out at 3 million barrels per day—30 times faster than the NPR's can.

- The administration and Congress have substantially increased the size of the SPR. Since 1980, the SPR has grown from under 100 million to nearly 500 million barrels of oil.
- Defense petroleum needs are met primarily from the open market. Legislation was enacted in 1984 to simplify Department of Defense petroleum procurement.
- The NPR production represents only a very small fraction of available oil—about 1% of U.S. production and 0.25% of world oil supplies.

It makes sense, particularly in a time of fiscal austerity, to eliminate Government programs with a questionable rationale. Running the NPR's is just such a program.

- Running an oil field is a commercial, not a governmental, activity. Private owners are likely to run the fields more efficiently than the Government does.
- For oil production to continue, every 3 years the President must find, and the Congress must agree, that continued production is desirable. This increases uncertainty and discourages long-term investment (in enhanced oil recovery, for example). Private investors would not face this problem.
- Setting aside 30% of NPR receipts for the defense stockpile is neither appropriate nor necessary. Under the President's stockpile modernization proposal, the purchase of any needed materials can easily be met by sales of surplus materials.

The Government will be further ahead financially if it sells the NPR's rather than holds onto them.

- In addition to the sales price, estimated at $3.6 billion, the Government will continue to receive windfall profit tax receipts and, in addition, the Government will receive corporate income taxes from the new owners.
- It will no longer be necessary to spend taxpayers' money to explore, develop, and operate the reserves. New investments in enhanced oil recovery activities could total hundreds of millions of dollars.

The administration is proposing legislation.

- The legislation would authorize the Department of Energy to sell Elk Hills and Teapot Dome at the earliest practicable date.
- The oil fields will be sold through an open, competitive process once the legislation is enacted. All receipts will be deposited in the Treasury.

GSA ASSETS

General Services Administration

The General Services Administration is responsible for disposing of Federal real property that is in excess of agencies' needs. The President's budget proposes a major initiative to dispose of surplus real property that will return receipts to the Government of over $1 billion in fiscal years 1987 and 1988 and nearly $2 billion over the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services: Offsetting collections	71	135	116	90	72	72	72
President's budget: Offsetting collections	n.a.	135	578	658	250	250	250
Deficit reduction: Offsetting collections	n.a.	....	462	568	178	178	178

PROGRAM HISTORY AND CURRENT STATUS

Since 1981, GSA surplus property disposals have averaged approximately $100-150 million annually.

- Actual sales receipts, however, have been lower than disposal value because of transfers to other agencies and donations to public beneficiaries (principally State and local governments.)

Further increases in real property disposals cannot occur unless agencies report more properties as excess to agency needs.

- To accomplish this, President Reagan signed Executive Order 12512, which establishes a new program for managing Federal real property and places responsibility on agencies to meet real property management goals.
- A primary goal of this program is for agencies to report to GSA all properties in excess of agency needs.
- For 1986 the administration has established targets for transferring excess real property to GSA from each landholding agency. Included in these targets are selected high value properties that are excess to agency needs. In 1986, approximately 21,000 acres of excess real property (.003% of total Federal lands for the 18 major agencies) will be targeted, with a value of over $1 billion.

ADMINISTRATION PROPOSAL

Under the administration's proposal agencies will periodically review their real property holdings, conduct surveys, and report to GSA properties in excess of agency needs.

- Targets have been established for each land holding agency that direct the agencies to transfer properties equal to at least a specified market value. These targets are based on a combination of specific properties identified as excess and on agency historical trends in transferring excess property. Over 95% of the total value of the 1986 targets is in four agencies: Veterans Administration, Department of Defense, Department of Transportation and GSA.

- Included in these targets are a number of specific high value properties that are excess to agency needs and, due to a variety of special interests, have not been disposed of in the past.
- Once these properties have been transferred to GSA as excess, GSA will move for disposal during fiscal years 1987 and 1988. GSA will follow the current legal requirements governing property disposals. This involves evaluating other Federal agency needs for the property, then offering the property for sale to State and local governments and finally selling the surplus properties to the private sector.

The Government should manage real property as an asset, which coincides with private sector practice. Through better property management:

- agencies will reduce their real property costs;
- the Government will reduce the deficit through receipts from the sale of surplus properties; and
- unused property will become productive again, resulting in greater economic growth and efficiency.

COMPENSATORY EDUCATION VOUCHERS

Department of Education

Under Chapter 1 of the Education Consolidation and Improvement Act, Federal assistance is provided to local school districts throughout the United States to support supplementary educational services for educationally disadvantaged school children. The Administration has submitted legislation that would give parents of each child served under Chapter 1 the option to receive a voucher which could be used to help pay for the education that best meets the child's needs.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	3,200	3,062	3,194	3,312	3,418	3,503	3,591
Outlays	3,619	2,550	3,066	3,219	3,291	3,399	3,489
President's budget:							
Budget authority	n.a.	3,062	3,261	3,300	3,300	3,300	3,300
Outlays	n.a.	2,550	3,069	3,268	3,290	3,299	3,300
Deficit reduction:							
Outlays	n.a.	....	−3	−49	1	100	189

PROGRAM HISTORY AND CURRENT STATUS

Grants to school districts under Chapter 1 (and its antecedent, Title I of the Elementary and Secondary Education Act) constitute the principal program of Federal aid to elementary and secondary education.

- Federal support for compensatory education began in 1965; Chapter 1 was enacted in 1981.
- Since 1966, the Federal Government has provided almost $40 billion to local school districts under this program.
- Each year, about 14,000 (about 90%) of the Nation's school systems receive Chapter 1 funds according to the number of low-income children in each school district.

Chapter 1 grants to school districts support supplementary educational services designed to increase the educational attainment of children whose performance falls below that expected of children of similar age and grade level.

- Federal expenditures per pupil vary widely, depending on how each school district structures its activities and how many children it selects to participate in Chapter 1.
- In the 1983-84 school year, there were about 4.8 million participants, including 225,000 in nonpublic schools. Approximately 75% of the children received help in reading and 46% in math.
- Evaluations consistently have found modest improvements in the reading and math skills of Chapter 1 participants, although all gains are not sustained after the children leave the Chapter 1 program.

ADMINISTRATION PROPOSAL

The administration has submitted a legislative proposal known as The Equity and Choice Act of 1985 (TEACH), which amends Chapter 1 to allow parents to obtain educational vouchers for children who have been selected to receive Chapter 1 services. Under the TEACH bill, parents of children selected by the district to participate in its Chapter 1 program may choose to:

- have their children continue to receive compensatory services under regular Chapter 1 programs operated by the school district; or
- use educational vouchers to pay for tuition or compensatory services, or both, if they enroll their children at private schools or at a public school other than the one to which the child is assigned (either in their own or in another school district).

This proposal has no effect on the funding level for Chapter 1.

- The value of a TEACH voucher would be determined annually based on the school district's Chapter 1 allocation and the number of children selected to participate in the Chapter 1 program.
- A child's participation must be determined each year as part of the regular Chapter 1 selection process.
- Vouchers could be used only at non-profit (as defined by IRS) educational institutions that do not discriminate against student applicants or students on the basis of race, color, or national origin.

The TEACH proposal is intended to improve the quality of education by permitting parents to select the best and most appropriate education for their child.

- By expanding the range of choices available to disadvantaged families, TEACH would provide them with some of the educational choices already available to more affluent families.
- TEACH would increase parental involvement by requiring parental choice, thereby improving the quality of education provided under Chapter 1.
- TEACH would promote competition among schools to meet the needs of disadvantaged children.
- TEACH would make easier the task of providing Chapter 1 services to parochial school students on an equitable basis, in light of the recent Supreme Court decision in Aguilar v. Felton. (In that decision, the Court held unconstitutional the use of public school employees to provide Chapter 1 services on parochial schools' premises.)

HOUSING VOUCHERS

Department of Housing and Urban Development
Department of Agriculture

Federal housing programs in the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) provide a wide variety of subsidies for housing. The President's budget proposes to consolidate housing assistance in HUD and convert from the current expensive and inefficient new housing construction subsidies to a housing voucher approach.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
HUD							
Budget authority	11,263	10,041	11,204	11,642	12,062	13,573	28,902
Outlays	10,510	11,418	11,961	12,727	13,401	14,319	15,136
FmHA							
Budget authority	6,217	3,367	4,944	4,519	4,916	5,062	5,101
Outlays	3,970	3,693	3,086	3,417	3,319	3,064	2,884
Total, housing programs							
Budget authority	17,480	13,408	16,148	16,161	16,978	18,634	34,003
Outlays	14,480	15,111	15,047	16,144	16,720	17,383	18,020
President's budget:							
HUD							
Budget authority	n.a.	5,124	....	3,000	2,860	3,294	9,595
Outlays	n.a.	10,654	9,563	9,565	9,791	10,277	10,686
FmHA							
Budget authority	n.a.	2,655	2,865	2,629	2,633	2,574	2,446
Outlays	n.a.	3,316	1,666	1,471	1,090	721	476
Total, housing programs							
Budget authority	n.a.	7,779	2,865	5,629	5,493	5,868	12,041
Outlays	n.a.	13,970	11,229	11,036	10,881	10,998	11,162
Deficit reduction:							
Outlays	n.a.	1,140	3,818	5,108	5,839	6,386	6,858

PROGRAM HISTORY AND CURRENT STATUS

The Housing Act of 1937 created the first Federal subsidized housing program for low-income people—the public housing program.

- The Federal Government paid the capital and financing costs to construct public housing units; the subsidized tenants' rent was expected to cover operating costs (including maintenance and repair).

- Local public housing authorities (PHA's) were created to own and operate these units. The Federal Government paid the capital costs by establishing long-term contracts with the PHA's.

Since then, the number of Federal subsidized housing programs has proliferated.

- The Government tried numerous different approaches for subsidizing the construction, rehabilitation, and operation of housing.
- Even in the many cases where the Government acknowledged failure, terminating the failed program was difficult.
- More importantly, termination did not necessarily end the Federal subsidy payments, since the various new construction programs involved Federal subsidy commitments of up to 40 years' duration.
- The extent of these previous subsidy commitments is reflected in an astronomical $249 billion in HUD housing subsidy obligations that have not yet been spent. In other words, if the budget were to request not one new dollar for housing in 1987, there would still be $249 billion to spend—that the Government is committed to spend—for housing over the next 20 years or more.

During the first term, the Reagan administration and the Congress agreed to terminate the largest of these costly new construction programs—the section 8 new construction program. The public housing new construction program was also sharply curtailed.

- Although there has been a 62% reduction in annual budget authority and a 49% reduction in annual additional new units between 1981 and 1985, outlays have grown 74%.
- Outlays would remain at levels above $9 billion into the next decade even if the programs were terminated, because these prior year commitments spend out slowly over many years. In order to effect future year savings, immediate action is required.

Numerous research reports, including the 1982 report of the President's Commission on Housing, have found that the housing problem nationwide is one of housing affordability, not availability.

- Thus, the administration, with the support of the Congress, has replaced most of HUD's expensive new construction programs with programs that subsidize rents on existing units.

However, FmHA has failed to adopt the important reforms to HUD programs and instead continues to provide unneeded direct loan subsidies for new housing construction despite dramatic improvements in the rural housing stock and high rural housing vacancy rates.

- FmHA direct loans produce immediate, large outlays that directly increase the Federal deficit. Because there is no persuasive evidence that private market housing credit in rural areas is unavailable, these programs can no longer be afforded.
- Since 1980, about 70% of FmHA subsidies have been for a homeownership program that produces units that are unaffordable to households below the poverty level, even with deeply subsidized 1% mortgages.
- While 95% of HUD's incremental rental units are targeted by statute to very low income households, FmHA homeownership and rental programs reach very low income households only 24% of the time.
- HUD already allocates between 20-25% of its units to non-metropolitan areas, demonstrating the efficacy of HUD's approach in areas also served by FmHA.

ADMINISTRATION PROPOSAL

The administration's proposals would provide housing vouchers for 50,000 additional poor households each year, beginning in 1986, divided evenly between urban and rural areas.

- There would be no new commitments for new housing construction programs in FmHA and HUD (although the $249 billion in existing commitments would continue to be spent).
- The vouchers would replace the following programs: FmHA Section 502 homeownership loans, FmHA Section 515 rental housing loans, HUD rental housing development grants (HoDAG), HUD Section 202 elderly and handicapped housing, and HUD public and Indian housing.
- Even with outlay savings that will amount to $29.1 billion over the next 5 years, households receiving some type of housing assistance will increase from 5.4 million in 1985 to 5.9 million in 1991.
- A change in the way prior-year commitments for public housing construction and renovation are financed results in a portion of the deficit savings shown above ($721 million in 1986, $1.7 billion in 1987, and approximately $2 billion per year thereafter).

Given the current status of rental housing markets nationwide, the voucher approach and consolidation in HUD make good sense.

- The national vacancy rate—6.8% in the third quarter of 1985—is the highest in 18 years. Rental housing starts during 1983 through 1985 have been at their highest levels since the early 1970's. The absorption rate—the rate at which new units are rented—fell in 1984 to the lowest levels since at least 1969; only 67% of new rental units were rented within 3 months of completion.
- On a net present value basis, vouchers cost just over $19,000 for 30 years of housing for a family; new construction, like FmHA Section 515 or HUD Section 202, costs over $55,000 to house the same family over the same period of time.
- The voucher approach is not only cheaper, but it is better for recipients. Vouchers give recipients flexibility to choose the unit size, the location, and the price according to their own set of preferences. Subsidized projects, often located in less desirable areas of town, offer very little choice to households needing a subsidy.
- HUD is capable of serving rural areas. HUD does not manage resources directly, but "contracts out" to State and local public housing authorities (PHA's) that already serve rural areas and should have sensitivity to rural needs.
- The precursor to vouchers, Section 8 existing housing, currently provides almost 800,000 units nationwide in both urban and rural areas.

FEDERAL HOUSING ADMINISTRATION

Department of Housing and Urban Development

The Federal Housing Administration, part of the Department of Housing and Urban Development, insures real estate loans—particularly single- and multi-family mortgages—made by private lenders. The administration is proposing legislation to curtail the use of this Federal insurance program by homebuyers who can easily be served by the private sector, and will develop plans during the next year for turning the entire FHA program over to the private sector.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	100	123	130	457	691	886	932
Outlays	−654	−1,434	−1,764	−1,785	−1,855	−1,936	−1,927
President's budget:							
Budget authority	n.a.	123	79	458	686	875	932
Outlays	n.a.	−1,434	−1,910	−1,691	−1,812	−1,959	−1,993
Deficit reduction:							
Outlays	n.a.	....	146	−93	−42	23	66

PROGRAM HISTORY AND CURRENT STATUS

The Federal Housing Administration (FHA) was created at the depth of the Great Depression in 1934 to reestablish long-term mortgage financing.

- FHA has insured almost 15 million home loans.
- FHA's success in meeting its original objective is clearly manifest in the growth in long-term mortgage financing after World War II. During that period, the number of American homeowners increased by over 41 million, and the number of mortgage loans outstanding grew by nearly 23 million.

FHA insurance is available to all potential homebuyers, although insured mortgages cannot exceed $67,500 (or up to $90,000 in high cost areas).

- In recent years, FHA has insured 10-15% of all home mortgages originated in the U.S.
- Homebuyers with incomes above $40,000 account for approximately 25% of FHA's business, and buyers of investor or vacation homes account for 8%.
- The FHA currently charges a fee of 3.8% of the mortgage amount to cover potential default costs. However, because the mortgage can be increased to finance this premium, the total mortgage loan can exceed the value of the home being purchased.

Over the last 25 years, a separate private mortgage insurance industry has developed. It has grown to the point where, in 1984, the volume of private mortgage insurance business was more than twice that of the Government programs (FHA and VA) combined.

In the last few years, both Government backed and privately insured mortgage programs have experienced increasing mortgage default losses. This phenomenon has been due to a combination of elements including:

- lower rates of housing appreciation as inflation has been brought under control;
- greater use of alternative mortgage instruments that have shifted more of the interest rate risk from lenders to borrowers; and
- higher risk loans originated under more liberal underwriting standards.

Default rates for FHA mortgages have consistently exceeded those for private insurers, because many FHA loans have higher loan-to-value ratios and some have loan amounts that exceed the value of the property.

The private mortgage insurance industry has proved sufficiently resilient to withstand the various economic shocks it has experienced over this recent turbulent period.

- It has been able to expand its market share of mortgage originations from 18% in 1981 to 31% in 1984, notwithstanding the presence of the Federal Government as a direct competitor.
- FHA homebuyers continue to be quite comparable in most respects to those using private mortgage insurance.

ADMINISTRATION PROPOSAL

The administration is proposing to change several features of the FHA program both to reduce the present excessive risk exposure and to restrict Federal mortgage insurance to those homebuyers the private market appears least able or willing to serve.

- The current 3.8% up-front premium charge would be raised to 5% (see separate fact sheet on credit management reforms).
- The option to finance the FHA up-front premium by adding it to the mortgage would be eliminated.
- Households with incomes above $40,000 would be ineligible to obtain FHA home mortgage insurance.
- FHA home insurance would be available for a principal residence only, not for investment or vacation properties.

The purpose of the first two items—increasing the premium and precluding the practice of borrowing the premium payment—is to tighten up the FHA underwriting practices, as the private insurers have already done. The second two items are designed to focus FHA insurance on those who are more likely to need assistance, and to extend the market for private mortgage insurers. There is substantial evidence that the private sector could be handling the vast majority of FHA's current business.

- Major well-capitalized American corporations appear ready to move into the portion of the market FHA now serves.
- Legislation will be proposed this year to accomplish the changes in eligibility for FHA insurance, as well as the elimination of the option to finance the premium.
- Finally, the administration will develop and review over the next year several alternatives for selling the FHA mortgage insurance business to the private sector. A detailed proposal will be forthcoming in January 1987.

EXPORT-IMPORT BANK DIRECT LOANS

Export-Import Bank

The Export-Import Bank provides direct loans, loan guarantees and insurance to assist U.S. exporters in meeting competition supported by foreign official export credits. The administration proposes substituting an interest rate subsidy program for the direct loan program, achieving savings of $4.6 billion in budget authority and $1.9 billion in outlays over the period 1987-1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Direct loans	660	1,110	1,146	1,192	1,239	1,281	1,318
Budget authority			536	797	1,026	1,213	1,058
Outlays	−384	−156	−772	−1,075	−1,304	−1,489	−1,333
President's budget:							
Direct loans	n.a.	1,110					
I-Match guarantees	n.a.	n.a.	1,800	1,800	1,800	1,800	1,800
Budget authority	n.a.						
Outlays	n.a.	−156	−955	−1,404	−1,755	−2,014	−1,717
Deficit reduction:							
Budget authority	n.a.		536	797	1,026	1,213	1,058
Outlays	n.a.		183	329	451	525	384

PROGRAM HISTORY AND CURRENT STATUS

Since being established in 1934, the Export-Import Bank (EX-IM) has provided export financing, initially to make up for market inefficiencies, but more recently to respond to foreign subsidized competition.

- This emphasis on responding to foreign competition resulted in the Bank offering large subsidies beginning in the late 1970's.
- These large subsidies resulted in the Bank's $1.1 billion operating losses during 1982-1985. Recently there has been a dramatic decline in demand for EX-IM's direct loan program, with more than 75% of the 1982-1985 available authority unused.
- This decline is in part attributable to the rise in the dollar relative to other international currencies.
- It is also attributable to the success of U.S. negotiations in reducing our competitors' official subsidies.
- Reducing official subsidies has led to more reliance on private financing. For example, aircraft sales are increasingly financed without official subsidies.

ADMINISTRATION PROPOSAL

The administration proposes to replace the direct loan program with an improved version of the interest rate matching (I-Match) proposal contained in the 1986 budget.

- Under the I-Match proposal, EX-IM will use its reserves to buy down interest rates in order to counter foreign official subsidies. Rates would not be reduced below the agreed minimums established by the Organization for Economic Cooperation and Development (OECD).
- The proposal provides for interest rate buy-downs on up to $1.8 billion in loans guaranteed by EX-IM, at an estimated cost to reserves of $100 million.
- The expanded $12 billion guarantee and insurance program will be retained.
- The new proposal has been altered in several ways from the version proposed in the FY 1986 budget to address concerns raised by the financial community.

The I-Match program will provide greater opportunities for private sector export financing, with no loss in competitiveness to U.S. exporters.

OVERSEAS PRIVATE INVESTMENT CORPORATION

The Overseas Private Investment Corporation (OPIC) is a Government corporation that promotes economic development in friendly developing countries by insuring U.S. investment in those countries against such political risks as expropriation, currency inconvertibility and loss due to political violence, and by providing guarantees and direct loans to help finance U.S. investment. The President's budget proposes that OPIC be privatized, and in calendar year 1986 the administration will evaluate alternative means of achieving this objective.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Insurance	3,245	4,000	4,164	4,326	4,473	4,603	4,709
Direct loans	15	14	14	15	15	16	16
Loan guarantees	150	136	142	148	153	157	161
Outlays	−99	−110	−109	−103	−102	−102	−101
President's budget:							
Insurance	n.a.	4,000	4,500	4,000	....	....	....
Direct loans	n.a.	14	15	15	....	....	....
Loan guarantees	n.a.	142	150	150	....	....	....
Outlays	n.a.	−110	−113	−109	−110	−106	−106
Deficit reduction:							
Outlays*	n.a.	....	4	6	8	4	5

*The budget reflects: 1) the anticipated reduction in OPIC administrative expenses beginning in 1987, and 2) no new program activity beginning in 1989. The exact budgetary impact will depend on the results of the privatization study.

PROGRAM HISTORY AND CURRENT STATUS

In the post-World War II era, the Federal Government launched the first political risk insurance program, designed to encourage U.S. businesses to reinvest in war-torn Europe.

- Later, in recognition that capital investment was also critical to the sustained economic growth of developing countries, the Agency for International Development (AID) was given responsibility for investment insurance and guarantee programs.
- In 1969, Congress established OPIC as an independent Government corporation and transferred AID's insurance and guarantee programs to the new agency.

In 1974, Congress called for OPIC's political risk insurance program to be fully transferred to the private sector by December 31, 1980.

- By 1978, the effort was abandoned for a variety of reasons, chiefly because the private market was not sufficiently developed.

Now, however, alternative sources of political risk insurance have been emerging.

- In 1973, the private insurance market started to experiment with political risk coverage as Lloyd's of London syndicates began to offer coverage for inconvertibility and expropriation risks.
- In 1980, even though the OPIC privatization mandate was abandoned, U.S. insurance firms also began to enter the political risk market.
- In addition, the Multilateral Investment Guarantee Agency (MIGA), the World Bank's new insurance program, is expected to be operational by 1987. MIGA's mission, similar to that of OPIC, is to encourage the flow of capital and technology to developing countries by insuring investments against non-commercial risks. A convention establishing the MIGA has been negotiated under the auspices of the World Bank. The United States strongly supports the creation of the MIGA and expects it to become a major player in the political risk arena.

OPIC's annual revenues exceed expenses substantially, as measured by the negative outlays in the U.S. budget in excess of $100 million annually.

- OPIC's profits accrue from two sources: interest on reserves invested in Treasury securities (70%) and premium income (30%).
- Over the years an insurance reserve of $922 million has been accumulated. Recently, reserves have grown by almost $100 million annually.

ADMINISTRATION PROPOSAL

The administration proposes that OPIC be privatized. Starting in early 1986, an interagency task force will examine alternative privatization options. The task force's objective will be to develop a plan of privatization that will take into consideration a number of factors including:

- the private insurance market;
- the prospects for MIGA;
- the appropriate Federal role in the political risk insurance market; and
- U.S. economic and foreign policy interests.

The goal of privatization is to ensure an efficient market for political risk insurance that will support market-oriented development in third-world countries.

- Encouragement of the U.S. private market for investment insurance will reinforce the U.S. objective of helping developing countries to promote growth through market-oriented economic policy reform.
- OPIC's strong financial position makes the agency a good candidate for privatization.

CROP INSURANCE

Department of Agriculture

The Federal Crop Insurance Corporation (FCIC) has subsidized crop insurance to farmers, through reinsuring private companies, since 1981. The President's budget proposes to charge insurance companies for services offered by FCIC and phase crop insurance subsidies out over 5 years, thus allowing private insurance companies to sell and farmers to purchase insurance on an actuarially sound basis.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Budget authority*	474	344	617	640	660	678	693
Outlays	506	557	574	595	614	631	645
President's budget:							
Budget authority	n.a.	344	240	149	70	43	....
Outlays	n.a.	557	236	149	70	43	....
Deficit reduction:							
Outlays	n.a.	....	338	447	544	589	645

*In addition, the FCIC expects to borrow $250 million from the Commodity Credit Corporation pursuant to the 1985 farm bill for payment of excessive indemnities in 1986.

PROGRAM HISTORY AND CURRENT STATUS

The Federal Crop Insurance Corporation (FCIC) makes available "all risk" insurance to producers against crop losses from natural hazards such as excessive rainfall or drought.

- Beginning in 1938, the Federal Government operated a limited crop insurance program which covered only a few selected crops in a few States.
- In 1980, legislation was enacted which substantially expanded the availability and scope of Federal crop insurance.

Since 1980, Federal funds have been used to pay 25% of the cost of farmer premiums, and to cover operating expenses of reinsured companies and of Federal insurance. As a result, premiums paid by farmers do not represent the actuarial cost of providing crop insurance.

The FCIC goal was to develop a market for crop insurance so that private insurance companies eventually would be willing to offer these services without Federal support. That goal has largely been met.

- Since crop year 1981, the volume of commercial reinsured premium income has increased from $12.8 million to an estimated $510 million for crop year 1987—a 3,900% increase.
- Insurance in force, purchased in over 3,000 agricultural counties, is expected to reach $9.8 billion in 1987.
- The proportion of crop insurance written by private companies has increased from 4% in crop year 1981 to about 85% for crop year 1986.

ADMINISTRATION PROPOSAL

The administration's 1987 budget proposes to initiate a 5-year phasedown of the Federal subsidy to crop insurance. This phasedown will lead to the total privatization of crop insurance by 1991. The phasedown includes:

- gradually decreasing the Federal subsidy of farmers' premiums from 25% in FY 1986 to zero by 1991;
- phasing out Federal subsidies for operating expenses of reinsured companies and of Federal insurance over 5 years;
- increasing premium rates charged to producers until an actuarially sound rate structure is achieved;
- initiating user fees in FY 1987 to recover all Federal administrative costs; and
- streamlining staff over 5 years to perform actuarial and compliance services as well as headquarters management.

A fully commercial crop insurance industry is a realistic goal for 1991. Commercial firms have demonstrated sufficient growth to take it over without Federal subsidy by that time.

The subsidies should be phased out because they:

- distort the true cost of production, return on investment, and land values;
- encourage farmers to farm marginal lands; and
- are costly to taxpayers.

The difference in premium cost caused by dropping the subsidy is quite small.

AMTRAK SUBSIDY

Department of Transportation

Amtrak, the Nation's private passenger service railroad, receives a subsidy from the Federal Government to cover operating losses, capital costs, and other expenses. The President's budget proposes the termination of the Amtrak subsidy in 1987, saving taxpayers $3.3 billion over the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	684	562	617	644	668	689	706
Outlays	764	671	665	644	668	689	706
President's budget:							
Budget authority	n.a.	562	......	......	......	......	......
Outlays	n.a.	671	48	......	......	......	......
Deficit reduction:							
Outlays	n.a.	......	617	644	668	689	706

PROGRAM HISTORY AND CURRENT STATUS

Amtrak was originally created as a for-profit corporation, but it has failed in realizing that goal.

- It has received over $12 billion in Federal subsidies since its inception in 1971.
- Subsidies are projected to exceed another $7 billion over the next decade if the current system is maintained.

In spite of recent efforts to improve efficiency, Amtrak as currently configured is not capable of achieving economic viability.

- Almost 90% of Amtrak routes recover less than 56 cents on the dollar, and no routes recover fully allocated costs.
- Passenger revenues cover only 45% of operating costs. The Federal subsidy covers 40% of total systemwide costs.
- By funding Amtrak, taxpayers are providing a transportation subsidy of $10 to $170 per trip to Amtrak's passengers. The average Federal subsidy per passenger was $33 in 1985.
- The prohibitive costs associated with labor protection (i.e., payments to furloughed employees) prevent achieving cost savings through route terminations or implementation of other operating efficiencies.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- terminate the Federal subsidy for Amtrak, starting in 1987;
- as a result, Amtrak would likely enter bankruptcy, and all obligations, including labor protection, would be paid out of the assets of the corporation;
- portions of the Amtrak system, such as the Northeast Corridor, may potentially be operated without Government assistance, assuming various efficiencies are achieved; and
- for those routes where subsidies are required, State and local governments could provide assistance to ensure the continuation of passenger rail services, if they desire to maintain these services.

It is not a Federal responsibility to subsidize rail passenger services. In the context of massive Federal deficits, Amtrak represents a transportation amenity that the Nation cannot afford and can readily do without.

- No major disruption of passenger travel would result if Amtrak services were discontinued. It is not a significant component of intercity transportation, representing 0.25% of the total intercity mileage nationally.
- Amtrak passenger boardings represent a small fraction of airport and bus boardings. For example, in 1984, Amtrak boarded 11 million passengers at its 25 busiest stations while the airlines boarded 202 million passengers at the 25 busiest airports.
- Three-fourths of the Amtrak stations board fewer than 50 passengers a day.
- Open-ended rail subsidies provide unfair competition against other intercity transportation modes that receive little or no subsidies from the Federal Government.
- Subsidized rail passenger service is not a low income program. Half of Amtrak's passengers earn incomes of $30,000 a year or more.
- On many Amtrak routes it would be cheaper for the Federal Government to buy passengers bus or plane tickets rather than subsidize Amtrak.

LANDSAT SUBSIDY

Department of Commerce

The U.S. Government has built and operated five LANDSAT satellites since 1972. This budget continues the effort, begun in 1981, to transfer the program to the private sector.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Budget authority	125		90	54	26		
Outlays		76	91	72	41	13	2
President's budget:							
Budget authority	n.a.						
Outlays	n.a.	76	37	12			
Deficit reduction:							
Outlays	n.a.		54	60	41	13	2

PROGRAM HISTORY AND CURRENT STATUS

Land remote sensing satellites (LANDSATs) scan the earth and provide information that is useful to oil companies, crop forecasters, land use planners and researchers.

In 1985, the Department of Commerce awarded a contract to a firm created by two large aerospace corporations to build and operate LANDSATs and sell data.

- The Government provided the firm with $125 million (including cost of Government furnished launches) in start-up subsidy.
- The firm was allowed to retain revenues from the sale of LANDSAT data; these revenues had previously been deposited in the U.S. Treasury.
- Under the contract, the firm expects to receive another $170 million in Federal subsidy over the next 3 years.

ADMINISTRATION PROPOSAL

The administration proposes to discontinue future Federal subsidies. LANDSAT should be the private sector's responsibility, and continued provision of LANDSAT services should not be subsidized by U.S. taxpayers.

- LANDSAT primarily benefits private interests, such as oil companies that use the data for exploration. These private interests should be underwriting the system's cost.

The Federal Government has minimal use for the data.

- The Federal data needs that do exist can be met through alternative means.

- Since 1984, the primary Federal data user, the Department of Agriculture, has significantly reduced purchases of LANDSAT data and chosen to use other means to gather crop information (e.g., using infrared data from weather satellites).

Most of the general benefits of the LANDSAT program have already been realized.

- LANDSATs have mapped the earth continuously for the past 13 years and over 1 million scenes and films are now available for use.
- Reproductions of LANDSAT images of earth are often displayed in atlases.
- The 1987 budget provides for the storage and maintenance of LANDSAT images by the Department of Interior (EROS Data Center).

The competitive market should determine whether there should be an operational LANDSAT.

- Aerospace firms have made market projections showing over $400 million in projected sales of data by the early 1990's; they should be willing to risk stockholders' resources instead of taxpayer funds.
- Space commercialization should not be predicated on public/private partnerships with the taxpayers picking up the tab and the private sector picking up the profits.
- Land remote sensing data will still be available to U.S. companies from U.S. allies' satellites, even if the private sector does not elect to fund a LANDSAT without continued subsidies.
- Leadership in remote sensing technology will still be maintained through NASA research and development programs.

Federalism

GROUND TRANSPORTATION BLOCK GRANT

Department of Transportation

The Department of Transportation provides general taxpayer revenues and user fee revenues for discretionary and formula grants to States and large urban areas for local highway and transit projects. The President's budget proposes to replace these separate programs with a block grant at current user fee supported funding levels of more than $3 billion a year.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	6,082	5,478	5,685	5,893	6,072	5,994	6,123
Outlays	3,781	4,113	4,593	5,241	5,619	5,956	6,092
President's budget:							
Budget authority	n.a.	5,180	3,420	3,420	3,420	3,420	3,420
Outlays	n.a.	4,087	4,511	4,575	4,225	4,501	3,887
Deficit reduction:							
Outlays	n.a.	26	82	666	1,394	1,454	2,205

PROGRAM HISTORY AND CURRENT STATUS

The Department of Transportation (DOT) currently provides about $2.1 billion (1986 level) for local highway projects through three separate grant programs. These are in addition to the larger Interstate and primary highway system funding.

- The Federal-aid urban systems program provides about $0.8 billion for projects on major arterial and collector routes in urban areas.
- The Federal-aid secondary systems program provides about $0.6 billion for projects on major collector routes in rural areas (such as farm-to-market roads).
- A portion of the bridge replacement program (about $0.7 billion) funds local bridge rehabilitation work.

In addition, DOT provides about $3.3 billion (1986 level) for local transit projects through three separate grant programs.

- The formula grant program provides about $2.1 billion to public transit authorities for capital improvements and operating assistance.
- The discretionary grant program provides about $1.0 billion for major capital improvements and construction to these same authorities.
- A special program for the Washington Metro system provides about $0.2 billion for subway construction in the national capital area.

The local highway programs and the discretionary grant transit program are funded by user fees—approximately 3 cents of the 9 cent per gallon gasoline tax.

- The formula grant transit program and Washington Metro construction grants are, however, funded by the general taxpayer, not by the Federal gasoline tax.

Studies have consistently shown that Federal investments in new transit facilities, such as those made through the discretionary grant and Washington Metro construction grant programs, are highly questionable.

- "New construction of rail systems is rarely cost effective in improving urban mobility or reducing congestion. In most cases, equivalent improvements in traffic circulation, noise, and pollution could be achieved by combinations of less costly investments in road and transit systems as well as changes in traffic management and transit operations." (The Federal Budget for Public Works Infrastructure, Congressional Budget Office, July 1985.)
- "Transit service improvements designed to divert automobile users to mass transit have limited energy saving potential and are unable to appreciably reduce urban air pollution levels or reduce traffic congestion." (20 Years of Federal Mass Transit Assistance: How Has Mass Transit Changed?, General Accounting Office, September 1985.)

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- provide about $3.3 billion to States and large urban areas for use on local transportation projects (highways or transit) of their choice;
- finance these grants solely from Federal gasoline tax receipts; no general taxpayer supported financing would be used;
- allocate these funds to States based on existing highway and transit formulae, requiring that formula allocations for large urban areas be passed through to them by States. Washington would no longer determine what local projects would be financed;
- provide about $100 million to fund expenses associated with transit program administration, research and training, planning grants, and special assistance for the elderly and handicapped;
- rescind almost all of the 1986 funds earmarked by the Congress for constructing or expanding specific local transit systems; and
- terminate all other transit programs, including construction grants for the Washington Metro, in 1987.

These proposals are based on the following principles and beliefs:

- The construction, maintenance, and operation of State and local transportation facilities are primarily State and local responsibilities. However, as long as the Federal Government continues to collect a Federal gasoline tax, a portion of which supports State and local transportation activities, the Federal Government does have the obligation to allocate equitably these nationally collected resources back to the State and local levels.
- Separate Federal support programs for local highway and transit activities should be combined into a flexible block grant because State and local highway and transit facilities are inseparable, complementary parts of coordinated transportation systems.
- Project designation and approval of specific State and local projects by the Federal Government should be terminated since States and localities can determine much better than the Federal Government which transportation projects should be undertaken and in what manner.

In addition, the presence of separate discretionary funds for mass transit capital projects has resulted in "grantsmanship" among applicants and the funding of major projects that, but for this largess from the Federal Government, would not be undertaken and that we can no longer afford.

- From 1984 to 1986, Congress earmarked over $1.2 billion for new transit systems and extensions in 13 cities without sufficient regard to the relative merits of these systems. (Over 70% of these funds have been earmarked for just four cities.)
- This earmarking has based funding decisions on political forces, rather than on analytical and cost considerations. These battles should be fought locally, not in congressional subcommittees.
- The existence of Federal discretionary grants, which pay up to 75% of construction costs (80% for Washington Metro), encourages cities to design and propose projects that are cost ineffective. If discretionary grants were eliminated, "communities would have to appraise more critically the financial prospects of the rail system.... Many of the new starts currently proposed would probably fail such a reappraisal, and would likely be supplanted by more cost-effective projects." (The Federal Budget for Public Works Infrastructure, Congressional Budget Office, July 1985.)

These tend to be highly expensive systems, paid for by all taxpayers for the benefit of a few, which we no longer can afford.

- Los Angeles has asked Federal taxpayers to pay $2.0 billion plus for its proposed 18.6-mile subway system. Its total cost is approximately $180 million per mile—much more expensive than any other subway system.
- The Federal taxpayer has already contributed about $4.7 billion to building the Washington Metro system, and will be required to pay another $2.1 billion to cover existing Federal commitments. Still, it is estimated that another $2.2 billion would be needed to complete the proposed 103-mile system, for a total Federal taxpayer cost of $9.0 billion.
- If all new transit systems now being considered were to be built, the Federal price tag could exceed $20 billion.

New transit systems also rarely live up to their expectations. Costs are almost always higher and revenues and ridership almost always lower, resulting in severe operating deficits. The Miami system, initially projected to carry 200,000 passengers daily and meet operating costs from revenues, currently carries about one-tenth this number and recovers only about 20% of its operating costs.

If localities wish to construct new or expand existing transit systems, the transportation block grant program would be available to them, providing about $3.3 billion annually for locally selected rail, bus, or highway transportation projects.

- For example, the Washington, D.C. area, like other large urban areas, could use these funds to continue expansion of its Metro subway system. Even if it decided not to use these funds for further expansion, there are sufficient funds currently available to build the Green Line to Anacostia, resulting in a highly usable system.

FEDERAL-AID HIGHWAYS

Department of Transportation

Highway construction and repair on the 834,000-mile Federal-aid highway system is financed by Federal highway user fees in combination with State and local funds. The President's budget proposes to limit annual Federal highway spending to the average amount of user fees deposited in the highway trust fund.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	14,908	14,684	15,345	16,005	16,597	17,128	17,557
Outlays	12,584	13,665	13,669	13,555	14,155	15,179	15,593
President's budget:							
Budget authority	n.a.	14,684	12,770	12,770	12,770	12,770	12,770
Outlays	n.a.	13,665	13,184	12,552	12,620	13,144	13,035
Deficit reduction:							
Outlays, gross	n.a.	....	485	1,003	1,535	2,035	2,558
Outlays, net	n.a.	....	446	675	1,249	1,943	2,520

Note: The budget estimates include $2.2 billion in proposed funding for the Ground Transportation Block Grant 1987. The outlay savings shown as gross include the entire savings associated with this Block Grant; the outlay savings shown as net include only the savings discussed in this fact sheet.

PROGRAM HISTORY AND CURRENT STATUS

The highway trust fund was established in 1956.

- A system of Federal gasoline taxes and other user fees was enacted to finance the Federal share of highway construction and safety programs.
- Of the designated 834,000-mile Federal-aid highway system, the Interstate and primary systems account for 36% (or about 300,000 miles), while local roads in urban and rural areas constitute the remaining 64% (or about 534,000 miles).

In recent years, highway program authorizations have exceeded annual user fee collections. This has contributed to the deficit and endangered the long-term solvency of the highway trust fund.

- In 1985, the $15.2 billion of authorized highway programs ($14.9 billion of construction and $0.3 billion in safety programs) exceeded annual user fee collections ($11.8 billion) by $3.4 billion.

ADMINISTRATION PROPOSAL

The administration proposes to limit funding for highway construction and the safety programs supported by the highway trust fund to the amounts coming annually from highway user fees.

- The Federal-aid highways authorization would be reduced from $14.7 billion in 1986 to $12.8 billion in 1987. Together with safety programs, authorizations would total $13 billion.

- Gasoline taxes and other excise taxes dedicated for highway use will average about $13 billion per year over the next 4 years.
- Receipts available for highway spending would be maximized by repealing exemptions from highway user fees that benefit special interests.
- Savings would be generated by replacing the Interstate completion and repair programs with a combined Interstate/primary system program that would fund both new construction and rehabilitation and repair. The new program would be funded at a reduced level, but would give States greater funding flexibility.

Restricting highway trust fund spending to annual user fee receipts, but not interest:

- ensures that highway spending neither increases nor decreases the Federal deficit; and
- protects the long-term solvency of the highway trust fund without imposing new taxes. (The Congressional Budget Office estimates, and we agree, that the trust fund will be insolvent by about 1990 if spending is not reduced.)

The proposed funding levels are sufficient to preserve the Interstate and primary highway systems.

- Pavement conditions on the Interstate and primary systems stabilized after 1982; real investment grew as a result of the gas tax increase in 1982 and relatively stable construction prices.
- The combined Interstate/primary system program, which will constitute $8 billion of the $12.8 billion Federal-aid highways program, meets the Department of Transportation's 1985 estimate of funding required to maintain physical conditions on the Interstate and primary systems.
- Construction of the Interstate system, which is 97% open to traffic, has cost the Federal Government $4 billion annually. Most of the remaining segments are expensive to complete and primarily local in nature. States would have the option of completing unopen segments or using available funds for other types of Interstate and primary highway projects.

POLLUTION CONTROL BLOCK GRANT

Environmental Protection Agency

The Environmental Protection Agency provides categorical grants for State environmental agencies to implement seven pollution control programs. Consistent with efforts to return flexibility and decisionmaking to the States, the President's budget proposes that these categorical grants be consolidated and made into a block grant.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	262	278	290	303	314	324	332
Outlays	262	279	281	295	308	319	328
President's budget:							
Budget authority*	n.a.	278	270	270	270	270	270
Outlays	n.a.	279	269	269	271	271	270
Deficit reduction:							
Outlays	n.a.	....	12	26	37	48	58

*In 1987, $73 million will be designated to State hazardous waste programs.

PROGRAM HISTORY AND CURRENT STATUS

Federal grants provide part of the funding for State environmental agencies that implement programs for air, water, drinking water, underground injection control, hazardous waste, toxic substances, and pesticides.

- Each Federal environmental statute recognizes that States must have the lead role in achieving and maintaining environmental standards.
- Federal assistance is authorized in each statute to assist and encourage States to manage their environmental control programs.
- Federal funds currently make up about 45% of total environmental program funds annually expended by States.

All programs pay for a broad span of State activities including monitoring, permit issuance, and enforcement. However:

- each program is authorized and funded separately; and
- several grants are distributed to States by statutory or regulatory allotment formulas, each different.

ADMINISTRATION PROPOSAL

The administration proposes to consolidate these programs into a block grant, under which each State will receive the same total funding level as it would under the current programs.

- Due to the rapid increase in requirements resulting from the 1984 amendments to the Resource Conservation and Recovery Act, $73 million for the hazardous waste categorical grant program will not be included in the block grant until 1988.
- The modest budgetary savings shown in the table result from reductions that would have been proposed even in the current categorical grants.
- The difference is that the States—not the Federal Government—will determine the optimal allocation of funds among their environmental programs.

Converting these separate categorical programs to an environmental block grant will:

- enhance the ability of State policymakers to administer these programs in a more efficient manner;
- increase State control over the way in which national environmental standards are met; and
- recognize that States need flexibility to shift funds from one program to another to meet unique local problems.

The block grant will also advance two key administration Federal aid goals.

- It will simplify and reduce reporting and administrative requirements—at both the State and Federal levels. Since many States have comprehensive departments of environment, separate administration of each categorical grant is redundant and time consuming.
- It will enhance State accountability to its citizens and local governments for the allocation of these funds.

WASTE TREATMENT CONSTRUCTION GRANTS

Environmental Protection Agency

The waste treatment construction grant program provides financial assistance to State and local governments for the construction of publicly owned sewage treatment systems. The President's budget proposes to phase out the program by 1990.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	2,400	574	2,480	2,580	2,680	2,760	2,830
Outlays	2,900	2,820	2,420	2,320	2,490	2,550	2,590
President's budget:							
Budget authority*	n.a.	2,374	1,800	1,200	600	0	0
Outlays	n.a.	2,820	2,395	2,192	2,116	1,808	1,309
Deficit reduction:							
Outlays	n.a.	....	25	128	374	742	1,281

*$1.8 billion will be requested immediately after enactment of appropriate reform legislation.

PROGRAM HISTORY AND CURRENT STATUS

Prior to the enactment of the Clean Water Act of 1972, the financing of waste treatment plant construction was primarily a State/local responsibility, with the Federal Government providing less than 10% of funding.

- The intent of the Clean Water Act construction program was to supplement local spending with Federal assistance to quickly address approximately $18 billion in unmet needs for secondary treatment.
- Between 1972 and 1990, almost $50 billion will have been spent to assist State and local governments under this program, with the Federal Government paying 75% of construction costs through 1984 and currently paying 55%.

ADMINISTRATION PROPOSAL

The administration proposes to phase out the construction grant program in an orderly way over the next 4 years to 1990.

- The proposal provides $6 billion in new budget authority, including $1.8 billion that will be requested in 1987 as soon as legislation phasing out the program is enacted.
- Along with $3 billion in unused prior year funds, these appropriations will be dedicated to the completion of all projects now under construction or having some segment scheduled for construction up to 1990.

This program should be terminated because it will fulfill its mission by 1990.

- The backlog of sewage treatment needs that existed in 1972 virtually has been eliminated.

- Over 5,500 systems have already been built or are under construction, and another 350 are scheduled.
- With the administration proposal, 85% of the Nation's population and 85% of sewage flow will receive secondary or better levels of treatment.

Most projects that would not be funded under the proposed phaseout are not appropriate Federal responsibilities or are well beyond the original intent of the program. These include:

- small (often rural) systems posing little environmental threat, such as converting working septic tanks to central treatment systems;
- combined sewer overflow projects to treat storm water, which has short term, highly localized impacts,
- expansion or replacement of plants already built with Federal funds; and
- other local projects that are clearly a local taxpayer responsibility.

The construction grant program has created incentives for State and local goverments to reduce their own efforts.

- Federal funds have only substituted for State and local funds, not supplemented them as originally intended.
- State and local governments have often postponed needed construction to wait for Federal grants, imposing large economic and environmental costs from delay.

PRIMARY CARE BLOCK GRANT

Department of Health and Human Services

The primary care block grant provides grants to States for operation of community health centers (CHCs). The President's budget proposes expanding the block grant to include narrow categorical programs for black lung clinics, migrant health and family planning.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Budget authority	565	581	607	633	656	677	694
Outlays	576	611	607	633	656	677	694
President's budget:							
Budget authority	n.a.	559	565	565	565	565	565
Outlays	n.a.	600	565	565	565	565	565
Deficit reduction:							
Outlays	n.a.	11	42	68	91	112	129

PROGRAM HISTORY AND CURRENT STATUS

The Omnibus Budget Reconciliation Act of 1981 initially authorized the primary care block grant to fund CHC's through State governments.

- The main objective of the CHC program is to develop the local capacity to organize and deliver health care services to medically underserved populations.
- Community and migrant health centers care for over 5 million people annually in underserved areas.

The full savings and program improvements possible with the creation of the primary care block grant, however, have not been realized.

- Given continued statutory restrictions on flexibility and continued requirements for matching the Federal contribution, only a few States have opted for the block grant. Most exercise the option of having the Federal Government directly fund CHC's.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the primary care block grant would:

- extend to all States and eligible territories;
- expand to include current categorical programs for black lung clinics, migrant health, and family planning;
- no longer require States to match the Federal contribution; and
- grant funds in a block without detailed matching requirements to permit States and localities to use funds more effectively.

Consistent with the administration's emphasis on federalism, the proposal would allow States more opportunity and flexibility in coordinating and improving the effectiveness of primary care health services.

- The failure of pregnant mothers and newborns to receive the full range of available health services has been identified as one of the factors contributing to infant deaths. The expanded block grant would enhance State capacity to integrate these services.
- The block grant would also permit States to streamline program administration because unnecessary Federal regulatory, legal and reporting requirements previously imposed on grantees would no longer apply. More funds could be spent on primary care health services rather than meeting burdensome Federal requirements.
- In a 1985 report assessing States' implementation of other block grants enacted in 1981, the General Accounting Office (GAO) found that, when freed from categorical restrictions, States have been able to improve the management and planning of similar service delivery programs.

JUSTICE STATE GRANTS

Department of Justice

The Justice Department currently awards several different types of criminal justice grants to State and local governments under several grant programs. The President's budget proposes that four of these programs be returned to the States to operate and fund as they see fit, and further proposes that a fifth program continue to receive Federal funding, but at a reduced level.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	206	291	296	302	307	311	315
Outlays	139	238	320	313	306	311	314
President's budget:							
Budget authority	n.a.	169	174	176	178	179	181
Outlays	n.a.	197	198	120	112	113	115
Deficit reduction:							
Outlays	n.a.	41	122	193	194	198	199

PROGRAM HISTORY AND CURRENT STATUS

For the last several years, the Federal Government has provided grants to State and local governments in the following areas:

- juvenile justice and delinquency prevention grants that fund prevention and treatment programs aimed at juvenile offenders (approximately $70 million per year);
- State and local assistance grants that provide funding for general criminal justice programs ($70 million in 1985, $60 million in 1986);
- victims compensation and assistance grants that provide Federal funding to State victims programs (budget authority of $100 million per year);
- regional information sharing system (RISS) grants that fund local computer networks containing information useful to local police ($10 million per year); and
- Mariel Cuban grants awarded to 16 States which have Mariel Cuban offenders incarcerated in their prisons ($5 million in 1985 and 1986).

Three of these grant programs have accomplished the objectives that were established for them when they were created, and yet the programs continue to live on.

- Juvenile justice grants were initiated to encourage States to separate incarcerated juveniles from adult offenders, and to de-criminalize status offenses, such as truancy and running away from home. Both objectives have been accomplished to the extent practicable.
- RISS was intended to provide start-up money only, but for the last 10 years the Federal Government has paid for the entire cost of the program.

- The Mariel Cuban grants were intended as one-time assistance to the States in 1985, but the program was again funded in 1986 at the same level.

ADMINISTRATION PROPOSAL

Under the administration's proposal:

- The Federal Government would return to the States full responsibility for the juvenile justice program, and any funds that have been appropriated but not yet spent at the Federal level would be kept in the Treasury to help reduce the deficit.
- The same action would be taken with the State and local assistance, Mariel Cubans, and RISS grant programs.
- The victims compensation and assistance program would continue to operate, but at a reduced level of $35 million per year, thus continuing to provide a stimulus and incentive to State and local governments to initiate their own victims programs. This action alone would reduce the Federal deficit by $65 million per year.

It is time to let the people who benefit from these programs decide whether they should be continued.

- There is little reason why every taxpayer in the United States should share in the cost of crime prevention programs that benefit the residents of only one particular city or State.
- It seems unjustified to continue giving away money to the States when the State governments themselves reported a 1985 aggregate balance of $8.9 billion, but the Federal Government ran a budget deficit for that same year of $212 billion. The actions proposed by the administration with respect to these five grant programs would save the Federal taxpayers over $100 million in 1987.
- Most of these grant programs have long ago accomplished the objectives for which they were created, and it is time to turn them back to the States.

It should be noted that although the administration is proposing a reduction of the Federal role in these grant programs, it is proposing an increase in those Justice Department programs where there is a proper Federal role, in particular, Federal law enforcement.

COOPERATIVE EXTENSION SERVICE GRANTS

Department of Agriculture

The Federal Extension Service provides grants to States for out-of-school education in agriculture, home economics, and related subjects. The President's budget proposes to reduce funds distributed by the Extension Service to the amount used for farm services, achieving a total deficit reduction over 5 years of over $1 billion.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	344	328	342	357	370	381	391
Outlays	338	331	340	354	367	379	388
President's budget:							
Budget authority	n.a.	328	140	140	140	140	140
Outlays	n.a.	331	179	169	140	140	140
Deficit reduction:							
Outlays	n.a.	....	160	185	227	239	248

PROGRAM HISTORY AND CURRENT STATUS

The Smith-Lever Act of 1914 created the Cooperative Extension System—a partnership of the Department of Agriculture Extension Service, State land-grant universities, and counties. Originally, the system was designed to communicate information on agriculture and home economics from the land-grant universities to the farm population. In 1914:

- most farmers did not attend high school or college; and
- nearly 35% of the Nation's population were farmers.

The Extension Service now distributes formula and categorical grants to States to compensate State and local Extension staff employed by land-grant universities.

- The Federal Government pays one-third of the cost of the Cooperative Extension Systems, $338 million in 1985; State and local governments pay two-thirds of the cost.
- State extension services use about 60% of Federal funds for education in home economics, nutrition, 4-H clubs, and community development programs.
- Only about 40% of Federal funds are used for farmer education in agriculture and natural resources.

ADMINISTRATION PROPOSAL

The administration proposes to:

- reduce Federal formula and categorical grants to States for Extension activities to $140 million—equivalent to the amount normally allocated to farm services;
- maintain Federal funding primarily to assist farmers to enhance farm profitability and conserve soil and water resources; and
- encourage State extension services to use Federal funds to support secondary activities only after the needs of farmers have been met.

It is no longer necessary or appropriate for the Federal Government to fund State and local activities that are not national priorities.

- Much of the nonfarm service consists of advice and classwork on lawn and garden care, cooking, sewing, upholstery, quilting, and other activities that, though certainly beneficial to the recipients, are not high priorities for Federal funding.
- The Cooperative Extension System can continue programs of local interest by increasing contributions from State and local governments, businesses, foundations, and individuals.
- The Cooperative Extension System can expand its pool of nearly 3 million volunteers.

COMMUNITY DEVELOPMENT BLOCK GRANT

Department of Housing and Urban Development

The community development block grant program makes grants to units of general local government and States to fund local community development programs that support housing rehabilitation, economic development, public works, and other activities. The President's budget proposes to continue the program, but target assistance to distressed communities. Decreasing assistance to less needy communities will avoid reductions in aid to the more distressed recipients while achieving overall budget savings.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	3,472	2,990	3,125	3,259	3,380	3,488	3,575
Outlays	3,817	3,575	3,119	3,019	3,402	3,335	3,417
President's budget:							
Budget authority*	n.a.	2,490	2,625	2,740	2,850	2,955	3,056
Outlays	n.a.	3,575	3,099	2,629	2,664	2,778	2,886
Deficit reduction:							
Outlays	n.a.	....	20	390	738	557	530

*Budget authority figures in 1986 and 1987 reflect program level after deferral of $500 million from 1986 to 1987.

PROGRAM HISTORY AND CURRENT STATUS

The community development block grant program (CDBG) was created in 1974 by combining seven categorical programs that were sharply criticized for failing to meet their goals.

- The CDBG program was designed to simplify Federal regulatory burdens on localities, provide more flexible funding, and allow communities to set their own priorities to meet local development needs.
- About 70% of the funds were allocated by formula to large "entitlement" cities and major urban counties; HUD distributed the remainder through discretionary grants to smaller "non-entitlement" localities (30%) and for other special purposes (e.g., Indian tribes and special projects).
- "Reforms" in 1977 and 1978 increased the regulatory burden on CDBG recipients by forcing greater citizen participation in the local allocation process and restricting how local governments could use their CDBG funds.

In 1981, the Congress adopted most of the reforms proposed by the Reagan administration to reduce Federal regulatory burdens and return greater control and responsibility to States and localities.

- A State block grant program was created, allowing States, rather than HUD, to distribute CDBG assistance to smaller communities.
- Excessive application and other reporting requirements were eliminated; other regulatory restrictions governing the use of CDBG funds were also relaxed.

Since the CDBG program began, more communities have become eligible and the targeting of the program has become blurred.

- In 1987, 809 communities will receive "entitlement" funding—a 36% increase above the 594 grantees that received funding in 1975.
- Since eligibility for entitlement grants is determined strictly by size, wealthier large cities and urban counties have continued to receive CDBG funding. For example, one-third of all CDBG entitlement funds ($770 million) goes to urban areas considered only "minimally distressed" under the distress criteria used in related HUD programs.
- As the number of entitlement communities expands, the amount available for distribution to the most needy communities shrinks.

ADMINISTRATION PROPOSAL

As a component of deficit reduction, the administration proposes to reduce the CDBG program level by $500 million—about a 20% reduction—starting in 1986.

- The Federal Government cannot afford to provide current levels of support for State and local community development expenditures when the 1985 Federal deficit is $212 billion and the State and local surpluses have grown to $15.9 billion in 1984. (States themselves reported a 1985 aggregate balance of $8.9 billion.)

To minimize adverse effects on the most distressed communities, the administration proposes to reduce the assistance provided to the less needy recipients.

- With limited Federal resources, remaining CDBG funds must be reallocated effectively toward poorer communities. Legislative changes to provide more effective targeting will be proposed.
- The 36% increase in the number of CDBG entitlement communities has diluted assistance to the most distressed urban areas. The administration would end this proliferation of "entitlement" communities and the resulting dilution of effective support for those in distress.

Consistent with the administration's desire to preserve local flexibility while meeting the requirement to reduce Federal deficits, the President's budget preserves the CDBG program and proposes instead the elimination of several other HUD categorical programs that can be funded through CDBG at local option.

- CDBG funds can be used to support housing rehabilitation and other community development services that have been proposed for termination as categorical programs.
- CDBG funds allow greater local flexibility to determine the amount of housing rehabilitation, the level of subsidy to provide, and the most efficient type of subsidy to use.

COMMUNITY SERVICES BLOCK GRANT

Department of Health and Human Services

The community services block grant (CSBG) gives grants to States to support social services administered by community action agencies. The President's budget proposes termination of CSBG, resulting in over $2 billion in savings during the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	372	345	370	386	400	412	423
Outlays	376	357	368	383	397	410	420
President's budget:							
Budget authority	n.a.	172	4				
Outlays	n.a.	233	62				
Deficit reduction:							
Outlays	n.a.	124	306	383	397	410	420

PROGRAM HISTORY AND CURRENT STATUS

In 1981, the community services block grant was created by consolidating the remaining elements of the community action program begun under the Economic Opportunity Act of 1964. More than 90% of CSBG funds go to community action agencies for administrative costs and for support of programs in health, nutrition, housing, employment, and other social services.

- CSBG funding duplicates social services already covered by several federally funded programs, including especially the $2.7 billion social services block grant.

Recent studies show that CSBG funds constitute a small part of community action agencies' funding and are often used for overhead costs rather than for direct services:

- The National Governors' Association reported in 1984 that CSBG accounts for only 12% of funds available to local community action agencies.
- GAO commented in 1984 on the wide variance in use of CSBG funds by community action agencies for administrative costs, ranging up to 100% in some cases. Approximately 40% of CSBG funds are used for overhead costs nationwide.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- terminate CSBG when its authorization expires at the end of FY 1986, consistent with the FY 1986 congressional Concurrent Budget Resolution;
- rely on basic funding sources to pay a community action agency's full share of overhead costs; and
- rescind $172 million in 1986 funds.

Termination of CSBG is consistent with the administration's effort to increase efficiency and restore choice to the State and local level.

- Duplication of funding mechanisms, administrative staffs, and reporting requirements at the Federal level for CSBG, the social services block grant, and other programs from which community action agencies receive funding, creates inefficiencies and increases costs. In a period of soaring Federal deficits, this overlap is unacceptable.
- Repeal of the CSBG would accelerate consolidation of social services at State and local levels, thus reducing overhead costs at all levels of government.
- Consistent with federalism, States should be given greater latitude in developing a mix of services best suited to their unique social and economic needs.

Social services for the needy will continue to be supported. Effective community action agencies can be funded through the social services block grant, Head Start, low income energy, community development, job training, and other available funding sources which are already the main sources of funding for community action agencies.

Charges for Government Services

PARK AND FOREST RECREATION

Department of Agriculture

Department of the Interior

The Forest Service and Park Service hosted over 345 million visitors in FY 1985. Operating the recreation programs for these visitors costs about $600 million; $300 million was spent on construction of facilities and acquisition of additional Federal land for recreation. The administration proposes to increase recreation user fees and thereby reduce the cost of Federal recreation services to the general taxpayer.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services: Offsetting collections	52	55	56	57	58	59	60
President's budget: Offsetting collections	n.a.	55	126	128	133	136	138
Deficit reduction: Offsetting collections	n.a.	....	70	71	75	77	78

PROGRAM HISTORY AND CURRENT STATUS

Since their inception, the National Forest System (NFS) and the National Park System (NPS) have served recreation visitors.

- Recreation visits totaled over 230 million days at National Forests and 115 million days at National Parks in FY 1985.
- These systems include most of the Nation's designated wilderness areas, the national recreation areas, most of the Wild and Scenic River System, the National Trails, and other areas with important outdoor recreation qualities.
- Many recreation facilities are provided including roads, hotels, visitor centers, ski areas, swimming facilities, campgrounds, trails and marinas.

The Federal Government incurs substantial costs in operating and maintaining such lands and facilities.

- The FY 1987 budget for the Park Service and the Forest Service contains over $600 million for this purpose, including the funds to be derived from receipts.
- Present law prevents entrance fees from being charged at many parks or increased at others, and also prevents user charges for many campgrounds and developed sites.
- Park entrance fees are low and have not been increased for many years. For example, the $2 fee permits a vehicle with as many occupants as can be physically carried to visit Yellowstone for 2 weeks. This fee has not been raised for 14 years, despite inflation of 130% over that period.

ADMINISTRATION PROPOSAL

The administration will propose legislation to permit increased recreation user fees for both the Park Service and the Forest Service.

For the Park Service, the proposal will provide:

- authority to increase entrance fees at parks with existing fees and to extend fees to other units of the NPS where it is economically and otherwise feasible to charge a fee;
- an increase in the price of the annual pass to all parks; and
- inclusion of 80% of revenues collected in the budget for operation of the NPS, with the remaining 20% going to the general fund of the U.S. Treasury.

For the Forest Service, the proposal will provide:

- authority to charge user fees at up to 3,000 additional sites with recreational facilities. (Currently, the Government is prevented by statutory limitations from charging appropriate fees for these services.); and
- that revenues be retained by the Forest Service for operation and maintenance of recreation programs and facilities.

The administration believes that reasonable increases in recreation user fees will permit:

- continuation and enhancement of public recreation services, while recognizing the important priority of reducing the Federal budget deficit;
- improving the equity of program cost distribution among taxpayers depending on their use of Federal recreation lands and facilities; and
- increased awareness of the value of various Federal recreation programs to help assure that the program meets the Nation's preferences.

The administration will work with the Congress and the public to develop reasonable fees.

MEAT AND POULTRY INSPECTION

Department of Agriculture

The Department of Agriculture is responsible for the inspection of all imported and domestically processed meat and poultry. The President's budget proposes to recover the full Federal cost of these inspections through user fees beginning in FY 1987.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	365	347	350	353	356	359	361
Outlays	359	346	350	353	356	359	361
President's budget:							
Budget authority	n.a.	n.a.					
Outlays	n.a.	n.a.					
Deficit reduction:							
Outlays	n.a.	n.a.	350	353	356	359	361

PROGRAM HISTORY AND CURRENT STATUS

Over the last 80 years, the Federal Government has been responsible for inspection of slaughter and processing of all red meat produced in any plant operating in interstate and foreign commerce.

- Poultry inspection was added in 1957.
- Comparable inspection standards were mandated for intrastate meat and poultry plants in 1967.

As part of their inspection activities, Food Safety and Inspection Service (FSIS) employees:

- enforce sanitary standards in plant facilities and equipment;
- inspect all animals prior to and during slaughter to detect diseases;
- oversee slaughter to assure that it is humane; and
- monitor processing to ensure proper handling, formulation, and labeling.

The FSIS inspection activities are wide-ranging.

- In FY 1985, 7,400 full-time employees and 1,200 part-time in-plant employees of FSIS inspected approximately 183 billion pounds of meat and poultry products in 7,110 plants.
- FSIS maintains three laboratories and contracts with 200 commercial facilities to conduct both routine and special analyses of food samples. In 1985, FSIS analyzed approximately 258,000 samples.

- **FSIS inspected 2.4 billion pounds of imported meat in 1985 to assure that these products met standards comparable to those enforced in U.S. plants.**
- **FSIS monitors 27 State-operated inspection programs and reimburses States 50% of the cost of their programs.**

ADMINISTRATION PROPOSAL

The administration believes that it is inappropriate for taxpayers to continue to pay for this service because it comprises normal quality control activities that other enterprises pay and include in product cost. Legislation will be proposed to authorize the Secretary of Agriculture to implement a fee structure in FY 1987 to recover all Federal costs of inspection, enforcement, and laboratory service.

- Continuing full Federal funding for these services permits the meat and poultry industry to avoid the cost of implementing its own quality control systems, which are a normal cost of doing business in other industries. Thus, the absence of a fee amounts to a hidden subsidy.
- Institution of user fees will in no way lessen the Government's ability or responsibility to assure consumers that current standards are maintained.
- Further, the $350 million program cost is very small when compared to industry sales of over $45 billion annually.
- If fully passed through to consumers, the fees would add only 0.8% to prices of meat and poultry products, well within the normal price variation among competitive retailers.

COAST GUARD

Department of Transportation

The Coast Guard provides services such as inspections, licenses, navigation aids, and search and rescue without charge to commercial and recreational mariners. The President's budget proposes a phased implementation of fees for users of Coast Guard services, totaling $238 million in 1987 and $476 million a year upon full implementation (1988).

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Offsetting collections	2	2	4	4	4	4	4
President's budget:							
Offsetting collections	n.a.	2	242	480	480	480	480
Deficit reduction:							
Offsetting collections	n.a.	....	238	476	476	476	476

PROGRAM HISTORY AND CURRENT STATUS

Commercial and recreational mariners benefit at no cost from an extensive system of over 47,000 aids to navigation and the responsive search and rescue capability provided by the Coast Guard.

- The Coast Guard responds to over 70,000 calls for assistance each year involving 139,000 people. Over 70% of these calls are from recreational boaters and over 80% of the calls involve nonemergency situations. The Coast Guard's search and rescue capability is estimated to cost about $400 million in 1987.
- The Coast Guard also provides more than $100 million in free direct services each year. These services include issuing about 75,000 seamen's licenses and documents and inspecting 50,000 commercial vessels each year.
- In 1986 the administration proposed legislation for Coast Guard user fees that was introduced in both houses of Congress; Coast Guard user fees were included in the congressional budget resolution.

ADMINISTRATION PROPOSAL

The administration proposes to collect (upon full implementation) about $76 million in fees for direct services involving a transaction (e.g., issuing licenses) and about $400 million from annual indirect fees (e.g., about $20 a year per recreational boater) to cover part of the cost of the availability of Coast Guard services (e.g., search and rescue).

- Fees for direct services would be set to recover the cost to the Coast Guard of providing the specific service.

- Fees for other services would be in proportion to the Coast Guard's cost of providing the services to each class of users—recreation, commercial fishing, deep-sea commercial, and inland commercial.
- The cost of Coast Guard programs that benefit the general public (e.g., defense preparedness, law enforcement, polar ice operations) would not be included in the user fees.

User fees are a widely accepted means of financing transportation programs and of eliminating inefficient transportation subsidies. Taxpayers currently pay for Coast Guard services provided free to specific, identifiable groups of users.

For both recreational and commercial users, the proposed system is equitable and reasonable.

- Upon full implementation the proposal would recover less than 18% of Coast Guard's total budget of \$2.7 billion and 25% of the \$1.9 billion operating budget.
- The administration's proposal is consistent with the recommendations of the Grace Commission.
- By providing fully subsidized services, the Government has, in some cases, inhibited development of private enterprise in the market place (e.g., private marine towing services).

NAVIGATION

Department of Defense—Civil

The Army Corps of Engineers spends an average of $3 million daily to operate and maintain the canals, locks, dams, and harbors that comprise our country's commercial navigation system. In accordance with pending legislation, the 1987 budget proposes an ad valorem fee on the use of commercial harbors and a gradual doubling of the existing inland waterway fuel tax in order to increase Federal cost recovery from users of the commercial navigation system.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Offsetting collections	40	51	52	53	54	55	56
President's budget:							
Offsetting collections	n.a.	51	255	276	294	310	326
Deficit reduction:							
Offsetting collections	n.a.	....	203	223	240	255	270

PROGRAM HISTORY AND CURRENT STATUS

Our commercial navigation system consists of:

- 12,000 miles of inland waterways made navigable by the Federal Government at a cost of over $6 billion. It includes 240 locks and 160 dams operated and maintained by the Corps of Engineers; and
- 200 commercial harbors developed by the Federal Government at a cost of over $3 billion, and maintained by the Corps.

In 1987, the Corps of Engineers will spend more than $1 billion to operate, maintain, and improve inland waterways and commercial harbors. Until 1981, businesses paid nothing to use this highly efficient and safe transportation system.

In 1981, barge operators began paying a diesel fuel tax of 4 cents per gallon. This increased incrementally to 10 cents per gallon in 1986, with annual revenues of about $50 million.

- Those who use the inland navigation system still pay only about 10% of system costs; port users make no contribution to Corps of Engineers harbor costs.
- The taxpayers currently fund the rest of the Corps of Engineers commercial navigation expenditures.

ADMINISTRATION PROPOSAL

In June 1985, the administration and the Senate majority leadership agreed to water project financing reforms, which are reflected in the Omnibus Water Resources Bill, S. 1567, pending in the Senate. Consistent with this legislation, the administration proposes:

- an ad valorem fee for use of the 200 commercial harbors that would equal 0.04% (4 cents per $100) of the value of the cargo loaded and unloaded at U.S. ports, including imports and exports. In 1987, receipts from this fee would recover about $200 million or 40% of Corps of Engineers harbor operation and maintenance costs;
- doubling of the existing inland barge fuel tax over 10 years through equal annual steps, resulting in a revenue increase of $50 million by 1997. This will ultimately offset about 20% of Corps inland waterway costs; and
- collection and enforcement of the new user fees by the Department of the Treasury, which currently oversees similar activities.

Because the Corps of Engineers navigation services are quantifiable and commercial in nature, and the beneficiaries of such services are easily identifiable, the users can and should pay for the services.

- Benefits for businesses using the inland and harbor navigation system should not be subsidized 95 cents on the dollar by taxpayers. User fees to maintain highways and airways are similar to this proposal.
- The modest level of the commercial navigation user fees proposed (4 cents per $100 of cargo value for harbors and a 10-year phase-in to 20 cents per gallon of fuel for inland waterways) will not cause competitive or economic hardships on U.S. ports, inland waterways, or their users.
- User fees will serve as an incentive to keep expansion of the commercial navigation system in line with use.

The administration will initiate construction on future navigation projects only after enactment of the navigation user fees contained in the 1987 budget. These projects include:

- 17 new navigation projects funded in the 1985 Supplemental Appropriations Act (P.L. 99-88), pursuant to the June 1985 administration/Senate majority leadership agreement on water project financing reforms; and
- four additional navigation projects proposed in the 1987 budget.

IRS AND CUSTOMS

Department of the Treasury

The President's budget furthers the principle that fees should be charged to cover the cost of certain operations, particularly where a relatively small number of individuals is receiving the benefits of the Government service. In the Department of the Treasury, the administration is proposing cost recovery charges for IRS private letter rulings, determination letters, and collection of underpaid taxes, and Customs border processing activities.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Receipts							
President's budget:							
Receipts			913	910	924	937	950
Customs processing fees*		60	520	525	530	535	540
IRS—user fees			47	30	30	30	30
Cost of collection fee			346	355	364	372	380
Deficit reduction:							
Receipts		60	913	910	924	937	950

*Assumes Congressional enactment of Customs Service user fee provisions within H.R. 3128 and S. 1730, and implementation commencing in the summer of 1986. The customs processing fees, but not the IRS fees, are offsetting collections.

PROGRAM HISTORY AND CURRENT STATUS

The Internal Revenue Service (IRS) issues private letter rulings and letters of determination, and collects underpaid taxes. These services are provided directly in dealings with individual taxpayers and businesses, and thus are appropriate for imposition of user or cost recovery fees.

- IRS private rulings ensure that a contemplated transaction can be completed in such a way that it will not be challenged by the Government, provided it is completed exactly as outlined in the request.
- Determination letters, also provided upon written request by a taxpayer, primarily concern employee benefit plans and tax-exempt organizations.
- The cost of providing letter rulings and determination letters is currently borne completely by the general taxpayer.
- Failure to pay (FTP) penalties of one-half of 1% per month (plus interest charges) are currently imposed by IRS on some types of underpaid taxes, as an incentive to pay taxes.

The Customs Service currently provides a range of border processing services at various ports of entry.

- Services include inspections of imported merchandise, commercial carriers (vessels, aircraft, trucks, and trains), private carriers (yachts, boats, and general aviation), and passenger processing.
- The Customs Service does not charge user fees for routine border processing.

- In 1985, the House of Representatives and the Senate passed H.R. 3128 and S. 1730, respectively, as different versions of the Omnibus Budget Reconciliation Act of 1986. Both versions provided for the imposition of user fees for Customs border processing on most passenger and other types of conveyance. These bills did not include the additional user fees for the processing of merchandise proposed here.

ADMINISTRATION PROPOSAL

The administration proposes to impose user fees on IRS private letter rulings and determination letters.

- A schedule of fees will be constructed to reflect the complexity of the individual case and the resources required for processing by the IRS.
- These fees will reflect the benefits accruing to individual taxpayers.

The present IRS failure to pay (FTP) penalty would be replaced with a cost of collection fee. Since the Service incurs expenses in collecting taxes not covered by the FTP penalty, the new charge would more accurately reflect and recoup the true costs of tax collection operations. This proposal would also:

- expand the types of tax underpayments on which interest is currently charged, such as penalties and other types of underpayments, as an incentive to comply voluntarily with tax laws and pay all liabilities promptly; and
- increase the penalty from 1/2% to 1% per month after certain payment deadlines have been passed, at which point the IRS must begin to employ more costly and labor intensive methods of collection.

Similarly, the administration is seeking to recover all the costs incurred by the Customs Service in conducting border processing activities. Unlike the 1986 congressional action, the administration proposal:

- includes fees for the Customs processing of merchandise that passes through American borders; and
- revises the user fee schedules included in the House and Senate versions of the Omnibus Budget Reconciliation Act.

This initiative is consistent with the administration's goal of eliminating unnecessary taxpayer subsidies of specific groups.

- The users of these customs services represent a select population.
- The top 500 American importers are responsible for over 90% of all imported cargo.
- The top 300 import brokers account for over 70% of all imports.
- Less than 10% of all Americans come into contact with the Customs Service each year.

The proposed fees on processing of merchandise would have a minimal adverse impact on the economy.

- The average commercial entry is worth $50,000. The proposed fee for this activity would be $30-40, less than one-tenth of a percent of the overall cargo value.
- There is ample precedent for the collection of border processing fees. Customs already charges for selected processing activities, where special services are required.
- Other nations, including France, Switzerland and Spain, already impose fees for customs services.

OCEAN SPORTFISHING LICENSE

Department of Commerce

Currently there is no Federal fee for fishing in coastal waters for fish managed under Federal regulation. The President's budget proposes to initiate a Federal license fee to sportfish in the ocean, with the receipts shared equally by the coastal States and the Federal Government.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Receipts	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
President's budget:							
Receipts	n.a.	n.a.	20	30	50	50	50
Deficit reduction:							
Receipts	n.a.	n.a.	20	30	50	50	50

PROGRAM HISTORY AND CURRENT STATUS

Traditionally, fish in the ocean have been viewed as a free resource. Recently, however, it has been recognized that marine fisheries are an exhaustible resource and need to be conserved and managed to prevent overfishing.

- A Federal fishery management program is now in place, financed by general taxpayer revenues.
- The Regional Fishery Management Councils and the National Marine Fisheries Services (NMFS) in the National Oceanic and Atmospheric Administration (NOAA) conduct activities in support of recreational ocean fishing.
- These activities are directed toward conserving this national resource for the economic and recreational benefit of present and future generations.
- While States issue a license for fishing in State waters, the Federal Government has made no previous attempt to require a license for sportfishing for marine fish under Federal jurisdiction.

NMFS/NOAA provides these estimates about marine recreational fishing.

- There are about 17 million marine recreational fishermen.
- About 73 million trips are made each year for ocean sportfishing.
- The marine recreational fishing catch is equivalent to around 30% of the commercial fishing catch.

ADMINISTRATION PROPOSAL

The administration proposes to initiate an ocean Federal sportfishing license of $10 minimum per angler.

- Each coastal State would issue the license in conjunction with its freshwater fishing (or other) license program.
- Each coastal State participating in the program would provide $5 of the license fee to the Federal Government and could assess an additional amount to recoup the costs of administering the license program and to recover costs of fishery management by the State.
- States would provide the Federal Government with information on the number of licenses issued.
- The Federal marine license would be transferrable between States.

The exploitation of ocean fisheries for recreational purposes should result in a return to the general taxpayer who provides the financial support and is interested in conserving this resource for the use of future generations.

- This is consistent with other user fee proposals that would ask identifiable recipients who receive special benefits from Federal services above those that accrue to the general public to pay more of the costs.
- A few States (e.g., California, Texas, and Maryland) already assess a fee for saltwater angling. The proposal would extend this principle to all coastal States.
- There is ample evidence that sportfishermen place a high value on conservation of marine fisheries. The administration believes that sportfishermen can support this proposal as modest, fair, and reasonable.
- There is every reason to believe that those who can afford bait, tackle, and boat transportation would be willing to pay a small fee for the privilege of fishing in Federal waters.

Shortly, the administration will transmit proposed legislation to authorize this initiative.

PENSION GUARANTY PREMIUM

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) pays benefits if an employer terminates a defined benefit pension plan without sufficient resources in the plan to pay the promised benefits. The budget proposes to increase the premiums that sponsors of single-employer plans must pay the PBGC and to close legal loopholes being used by some firms to impose pension liabilities on the Government.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Outlays	−19	39	89	106	115	132	148
President's budget:							
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Outlays	n.a.	−161	−110	−108	−113	−103	−93
Deficit reduction:							
Outlays	n.a.	200	199	214	227	235	241

PROGRAM HISTORY AND CURRENT STATUS

The Employee Retirement and Income Security Act of 1974 (ERISA) established the PBGC to guarantee the payment of retirement benefits earned by workers employed by firms with retirement plans.

- To finance the guaranty, ERISA initially required all firms to pay an annual premium of $1.00 per participant in a retirement plan. Premiums since that time have not kept pace with benefit payments.
- In 1980, when the value of guaranty claims received by PBGC had significantly exceeded PBGC's assets, the premium was increased to $2.60.
- In the last few years, the amount of underfunding in terminated single-employer plans has increased. As a result of recent large terminations by firms still in business, PBGC's deficit more than doubled in 1985 to $1.3 billion.

ADMINISTRATION PROPOSAL

The administration proposes that ERISA be amended to:

- increase premiums charged to sponsors of single-employer plans in order to reduce growth of the program's deficit and to recover the cost of PBGC insurance from other covered employers;
- prevent dumping of unfunded pension liabilities on the Government by allowing only firms in financial distress to terminate plans and transfer responsibility for them to PBGC, and by removing the current limit (30% of net worth) on employer liability to the PBGC;

- reduce PBGC losses by requiring that a lien be placed on employers' assets when they are granted a waiver from the requirement that they make minimum annual contributions to their pension plans; and
- protect the PBGC from abusive transfers of pension liability by holding parent companies liable if a principal purpose of the transfer of a weak division or subsidiary is to evade or avoid liability to the Government when transferred plans are later closed.

Raising the single-employer premium is consistent with the administration's policy that users of a Government service should bear its cost.

- A premium increase is necessary to preserve PBGC solvency and protect pension benefits, but it is not enough.
- Congress should pass legislation both to increase premiums and to close loopholes, securing PBGC's financial future and ability to pay promised benefits under plans of firms that have become insolvent or have closed.
- Twenty percent of PBGC's deficit has come from terminations of plans by solvent employers who would still be responsible for the pension benefits they promised had they been prevented from using current ERISA loopholes.
- Loophole abusers are getting subsidies from other plan sponsors because the financial burden for their terminations has to be carried by other firms through premium payments to PBGC.

PBGC's financial condition and confidence in its ability to protect promised pension benefits will continue to deteriorate if Congress fails to legislate premium increases and reforms to prevent further abuse of the program.

URANIUM ENRICHMENT

Department of Energy

The Department of Energy sells services for enriching uranium to electric utilities so that the uranium can be used as fuel in nuclear reactors. The President's budget proposes to establish a formula for annual payments to the Treasury from sales revenues in order to repay unrecovered prior-year Government costs, reducing the deficit about $270 million each year from 1987 to 1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority*	113	176	...	...	...	...	...
Outlays*	300	−110	...	...	...	...	...
President's budget:							
Budget authority*	n.a.	176	...	...	...	...	...
Outlays*	n.a.	−110	−235	−270	−270	−270	−270
Deficit reduction:							
Outlays	n.a.	...	235	270	270	270	270

*Budget authority and outlays are shown net of revenues.

PROGRAM HISTORY AND CURRENT STATUS

Since 1969, the Federal Government has been enriching uranium for commercial nuclear reactors in the United States and abroad. Enrichment facilities are located at Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio.

- With a monopoly on enrichment services and projections of growing demand, in the early 1970's the Government started investing additional funds to expand capacity by modernizing existing plants and by initiating construction of a new plant using new technology.
- Today, demand is down significantly from earlier projections, and other countries are competing for the worldwide enrichment business.
- The reduction in demand has caused the cancellation of a partially built new plant and the closing of one existing facility.

Existing law requires the uranium enrichment program to fully recover its costs, including the Federal investment in the enrichment facilities.

- Despite price adjustments for uranium enrichment services, revenues have been insufficient to allow timely, full recovery of costs.
- The shortfall is due largely to multiple expansions in plant capacity, growth in imputed interest charges, and loss of market share to competitors.

The Government's unrecovered investment has grown to $7.5 billion.

- This amount includes initial investment, all subsequent expenditures less revenues, and annual imputed interest on the outstanding balance.
- The investment must be recovered over time from revenues, now about $1.3 billion annually.

ADMINISTRATION PROPOSAL

The President's budget proposes a regular schedule of repayments that provides the flexibility needed by the uranium enrichment program to operate under competitive market conditions, yet ensures steady recovery of the applicable outstanding Government investment through charges to customers for enrichment services.

- The total $7.5 billion unrecovered Government investment is written down to a level of $3.5 billion as of the beginning of FY 1986. The $4 billion reduction is the equivalent of writing off plant capacity not in use.
- Interest will be charged each year on the average balance of the reduced Government investment at the rate of 6.3%—the weighted average Treasury borrowing rates existing in the years in which there was an increase in unrecovered Government investment.
- From 1987 to 1991, a market adjusted repayment schedule will be in effect, establishing a minimum payment of $150 million plus a percentage of gross commercial sales revenue.
- Beyond 1991, the payments are also flexible, based upon the $150 million minimum plus half the reduction already scheduled to occur in electricity charges by TVA.

The market adjusted repayment schedule will:

- allow the Department of Energy to meet aggressively the foreign competition for enrichment sales; and
- assure the taxpayer that the appropriate outstanding Government investment will be repaid on a more certain schedule.

To avoid future increases in Government investment, and thus help ensure that sales revenues will be sufficient to pay off the past investment as well as current costs, the administration plans to take steps to transfer to the private sector further development of enrichment technology and plant capacity.

FEDERAL TIMBER AND MINERALS

Department of Agriculture

Department of the Interior

The Departments of Agriculture and Interior pay States and counties a percentage of gross receipts from timber sales and from on-shore oil and gas leasing regardless of program costs required to generate the receipts. The President's budget proposes that receipts be shared after the costs of generating them are deducted, achieving a total deficit reduction over the next 5 years of almost $1.4 billion.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	950	957	1,085	1,115	1,165	1,240	1,320
Outlays	950	934	1,085	1,115	1,165	1,240	1,320
President's budget:							
Budget authority	n.a.	958	777	848	897	970	1,049
Outlays	n.a.	934	777	848	897	970	1,049
Deficit reduction:							
Outlays	n.a.	....	308	267	268	270	271

PROGRAM HISTORY AND CURRENT STATUS

Agriculture has shared 25% of gross timber receipts with States since 1908. The Forest Service receipts sharing program has grown from $50 million in 1977 to $236 million in 1985. Since 1937, Interior has managed certain forest lands in Oregon, whose counties now receive 50% of gross Federal receipts. Interior has shared 50% of gross on-shore oil and gas receipts with State and local governments since 1920.

In some cases, Federal costs exceed the revenue generated by mineral leasing and timber sale activities.

- Forest Service costs for timber and mineral activities exceeded the Federal share of receipts by $621 million in 1985, and some timber sales did not cover costs.
- The costs of Interior's managing the revested forest lands in Oregon exceeded the Federal share of receipts by $4 million in 1985.

The receipts sharing programs were originally intended to support economic development in sparsely populated States. These programs were often perceived as offsetting the effects of non-taxable Federal lands on local governments dependent on property taxes for support of local services. However:

- in 1976 Congress instituted the payment in lieu of taxes (PILT) program, that pays local governments annually for Federal lands within their jurisdictions on a formula basis; and
- in 1985 PILT payments totaled $105 million.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- deduct from gross receipts the Federal cost incurred in generating the receipts before sharing the remainder according to current formulas with State and local governments;
- fully fund PILT payments under the current formula; and
- continue to share receipts, paying State and local governments over $700 million in 1987.

This proposal is sound business practice.

- Current laws distribute profits that don't exist. It makes neither economic nor business sense to share gross receipts from operations that do not cover basic costs.
- Current law encourages uneconomic development. Sharing on a gross basis gives recipient State and local governments strong incentives to push for sales of Federal resources even when the Federal taxpayers will lose money.
- Local governments can and do tax privately owned facilities on Federal property, as well as gain from the economic activity on Federal lands. The PILT payments more than fully offset the impact of undeveloped Federal land on the local property tax base.
- Most State and local governments are in much better financial condition than the Federal Government today, making sharing of Federal revenues, either from the general fund or from specialized activities, much less appropriate than when the economic situations were the reverse.
- The recipient areas tend to have relatively higher per capita incomes and lower tax efforts than the Nation as a whole.

Elimination of Ineffective, Duplicative, or Unnecessary Programs

INTERSTATE COMMERCE COMMISSION

The Interstate Commerce Commission (ICC) regulates the surface transportation industry. The President's budget proposes legislation to sunset the ICC and further deregulate the motor carrier, freight forwarder, water carrier, and bus industries.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	51	46	49	49	50	50	50
Outlays	50	49	50	50	50	51	51
President's budget:							
Budget authority	n.a.	n.a.	13				
Outlays	n.a.	n.a.	14				
Deficit reduction:							
Outlays	n.a.	n.a.	36	49	50	51	51

Note.—Table excludes combined funding of $11 million that would be provided in 1987 for activities that transfer to the Departments of Justice and Transportation under the sunset proposal.

PROGRAM HISTORY AND CURRENT STATUS

Since 1887, the ICC has heavily regulated the interstate surface transportation industry. Regulatory activities include:

- approving carrier entry and exit, corporate reorganizations, and rate changes; and
- setting operating restrictions on routes and commodities.

The ICC maintains jurisdiction for over 38,000 for-hire companies including railroads, trucking firms, bus lines, water carriers, freight forwarders, and transportation brokers.

Starting in 1980, legislative changes have partially deregulated motor carriers (1980), railroads (1980), and buses (1982), and have reduced significantly the ICC's jurisdiction and workload.

- ICC staffing has dropped by 50% since 1981.
- More than half of ICC's resources go to administer the vestiges of motor carrier regulation.

ADMINISTRATION PROPOSAL

Under the administration's proposal:

- all remaining Federal economic regulation of the motor carrier, freight forwarder, interstate water carrier, and bus industries would terminate;
- ICC authorities to regulate the rail industry would transfer to the Department of Transportation (which currently regulates motor carrier safety), except for antitrust-related matters, which are planned for the Department of Justice; and
- the ICC would close down by October 1, 1986.

Sunset of the ICC reflects the administration's commitment to the deregulation of the surface transportation industry, based on the belief that continued economic regulation imposes greater costs than benefits to the public.

Studies have shown the benefits of deregulation.

- More efficient freight transportation logistics and inventory management, resulting from deregulation, is estimated to reduce annual freight shipping logistic expenses by $30 billion.
- The Motor Carrier Ratemaking Study Commission found that collective ratemaking causes higher trucking rates than would occur in the absence of collective ratemaking.
- Shipper surveys have indicated that average truckload rates for large shippers declined by 25% between 1977 and 1982, while less-than-truckload rates declined by 15% over the same period.
- Numerous surveys have shown that services to small communities did not deteriorate, and were often improved, after the Motor Carrier Act of 1980.

Continued regulation, especially of the motor carrier industry, is an inefficient use of tax dollars.

- By law, ICC regulates entry by reviewing motor carriers' applications for entry. Yet 98.7% were approved in 1985.
- Similarly, ICC processed 1.5 million tariff notifications in 1985, even though there is a growing trend for shippers and truckers to negotiate contract rates and take advantage of price discounts.

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URBAN DEVELOPMENT ACTION GRANTS

Department of Housing and Urban Development

The urban development action grants (UDAG) program provides grants to numerous eligible cities and urban counties to attempt to stimulate new investment and promote economic development in depressed urban areas. The President's budget proposes that this program be terminated in 1986, yielding $1,236 million in deficit reduction over the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	440	316	330	344	357	368	378
Outlays	497	499	474	479	402	340	349
President's budget:							
Budget authority	n.a.	109					
Outlays	n.a.	488	413	331	214	67	26
Deficit reduction:							
Outlays	n.a.	11	61	148	188	273	323

PROGRAM HISTORY AND CURRENT STATUS

Started in 1978 as the centerpiece of the Carter administration's urban initiative, the UDAG program was intended to be targeted strictly to highly distressed urban areas and "action" oriented to avoid the long delays typical of most Government programs that subsidize construction activities. It has proved to be neither.

- Virtually from the start, the targeting to highly distressed urban areas was diluted. Eligibility was urged for non-urban areas with economic declines and even for fiscally healthy urban cities that had severe "pockets of poverty" within their jurisdictions.
- About 52% (or almost 400) of all large cities and 35% (or about 600) of all small cities are technically eligible for a UDAG grant. "Pocket-of-poverty" provisions potentially increase the number of eligible cities by 200, and innumerable other non-distressed cities can piggyback onto these grants by applying through eligible cities.

These efforts to expand eligibility continued during 1985, as Congress sought changes to:

- make UDAG's more available to communities with relatively less fiscal distress; and
- promote special treatment for certain types of projects, such as housing construction and rehabilitation, which provide fewer jobs and involve less total investment than either industrial or commercial projects.

Despite its "action" orientation, the UDAG program has been slow in completing projects.

- At the end of FY 1982, only 41% of the projects initiated in the first year (1978) were closed out or completed.
- At the end of FY 1984, only 27% of all funded projects had been closed out or completed.

- In 1982, there was insufficient demand on the part of local governments to apply for the resources that were made available under the UDAG program.

UDAG proponents claim that the grants leverage more than five times as much private investment as Government expenditures.

- Unfortunately, this leveraging ratio is greatly overstated because it excludes all other Government programs assisting a project, such as EDA, FmHA, and CDBG aid.
- In addition, most private dollars flow to projects because of tax advantages or the availability of tax-exempt financing, which impose a further drain on the U.S. Treasury.

ADMINISTRATION PROPOSAL

As part of its effort to eliminate unnecessary and inefficient programs, the administration proposes to terminate the UDAG program and rescind $220 million in 1986.

The UDAG program does not promote a clear national purpose. Moreover, UDAG grants siphon productive resources from economically efficient private investment to politically designed projects that may provide economic benefits, but which are less efficient for the national economy as a whole.

- At best, the benefits of the UDAG program accrue to developers and local governments as they draw economic investment to their area from other areas. At worst, the UDAG program escalates wasteful competition among neighboring jurisdictions and produces debilitating political disputes about "job stealing."
- The UDAG program does not add to total national investment or job creation, but only reallocates jobs and investments to political winners.
- By assisting some favored development projects, UDAG's can actually hurt competing, unsubsidized businesses.
- Many UDAG grants promote highly questionable uses of scarce Government funds, such as dockside condominiums in Michigan, assistance to construct a building for a major bank in Delaware, and help in building a horse arena in Georgia.

In addition to efficiency concerns, the distribution of UDAG resources has raised serious equity issues.

- Twenty large cities have received 44% of all UDAG dollars. Moreover, three of these big winners—Los Angeles, Minneapolis, and St. Paul—rank in the bottom eighth of all UDAG-eligible cities on such critical needs indicators as unemployment, per capita income, and job lag.
- Only 37% of the small cities' UDAG funds have gone to the Nation's one-third most distressed communities (according to UDAG's own "distress" criteria).
- UDAG grants have helped build 262 hotels, subsidizing the large corporations that built these facilities.
- Grantsmanship has been so critical to the determination of UDAG winners that cities have resorted to using scarce CDBG funds—and HUD has actually provided specific aid—to finance technical assistance and training on how to package and obtain a UDAG grant.

ECONOMIC DEVELOPMENT ADMINISTRATION AND APPALACHIAN REGIONAL COMMISSION

Department of Commerce

The Economic Development Administration (EDA) provides planning and project grants to State and local governments and loan guarantees to firms to stimulate economic development. The Appalachian Regional Commission (ARC) provides economic development grants to the 13-State Appalachian region to build highways and community development facilities. The administration proposes to terminate both programs, saving up to $346 million per year in 1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	410	317	331	344	356	367	375
Outlays	555	398	374	372	355	361	374
President's budget:							
Budget authority	n.a.	180					
Outlays	n.a.	380	300	208	115	57	28
Deficit reduction:							
Outlays	n.a.	18	74	164	240	304	346

PROGRAM HISTORY AND CURRENT STATUS

Both the EDA and ARC were created in the mid-1960's as programs designed to channel Federal funds into areas of high unemployment.

- Areas defined as eligible for EDA assistance were expanded and, at present, over 80% of the United States qualifies for EDA programs.
- Since 1965, EDA's and ARC's expenditures have totaled $12.8 billion and $5.2 billion, respectively.
- A representative EDA or ARC project would be a grant to build an industrial park.

Since 1982, the administration has proposed elimination of both EDA and ARC. While Congress has, to date, refused to terminate these agencies, funding has been reduced to about half of 1981 levels for both agencies.

ADMINISTRATION PROPOSAL

Under the administration's proposal, both EDA and ARC would be terminated, beginning with rescissions of appropriations for both in 1986. The President's budget provides for maintenance of staff to close out these grant and loan programs and to ensure adequate debt collection and audit of outstanding projects.

- The administration believes that these programs no longer target assistance to those in need, but instead serve narrow and specialized local and regional political interests at the public's expense. They serve no national economic purpose and are based on outdated economic policies.

- Decisions to undertake State and local economic development projects should be made and paid for either by private investors or by State and local taxpayers; they can best determine whether the projects are important and meritorious.

The ARC is no longer needed. The Appalachian region has caught up with much of the Nation. The economic decline of the 1960's has been reversed. For example:

- poverty rates dropped from 33% in 1965 to 14% in 1980;
- 2.4 million jobs were created between 1965 and 1980 with another 1 million jobs projected during the next decade;
- the unemployment rate dropped from 12.5% in 1982 to 8.9% in 1985; and,
- per capita income in Appalachia has increased from 77% of the national average in 1960 to nearly 85% by 1980.
- Appalachia has benefited greatly from Federal programs including the financing of: 2,000 miles of highways, 340 hospital projects, 400 primary health care projects, 700 vocational schools, 7,500 housing units, 1,300 water and sewer projects, and 135 industrial parks.
- The intent of the law creating ARC in 1965 was that the program would be temporary.

EDA also should be terminated. EDA grants and loan guarantees have proven ineffective.

- EDA loan guarantees have been provided to firms that were not creditworthy. Over 40% of EDA's loan portfolio is in default. In 1985, a single default cost taxpayers $90 million.
- EDA is a costly and inefficient means of creating jobs. One EDA program for example, cost $20,000 per person per month of employment.
- Appropriate Federal assistance for local economic development will remain available through the Department of Housing and Urban Development's community development block grant program.

SMALL BUSINESS CREDIT PROGRAMS

Small Business Administration

The Small Business Administration (SBA) provides assistance to small businesses and disaster loans to small businesses and homeowners. The President's budget proposes to terminate SBA's credit activities, transfer its loan portfolio to the Treasury for liquidation and sale, transfer the SBA to the Department of Commerce, and consolidate SBA's minority business assistance programs into the Commerce Department's Minority Business Development Agency (MBDA).

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	885	533	845	914	987	1,039	1,086
Outlays	311	581	802	884	985	1,061	1,095
President's budget:							
Budget authority	n.a.	533	978	−1,074	−838	−187	145
Outlays	n.a.	581	−643	−1,077	−837	−183	147
Deficit reduction:							
Outlays	n.a.	....	1,445	1,961	1,822	1,244	948

PROGRAM HISTORY AND CURRENT STATUS

SBA started providing small businesses with procurement and technical, management, and financial assistance 30 years ago, with a $57 million appropriation.

- In 1985, however, SBA provided $1 billion in new direct Federal loans to businesses and homeowners and $2.5 billion in new federally guaranteed loans under two major credit programs.
- SBA's business loan and investment fund provides direct and guaranteed credit assistance to businesses. Over 19,300 loans were approved in 1985 at interest rates ranging from a low of 3% to a high of above the prime commercial lending rate plus 2.75%.
- SBA's disaster loan fund provides loans to businesses and homeowners for uninsured losses suffered as a result of major disasters. Almost 7,800 disaster loans were provided in 1985 at interest rates of 4% and 8%.

SBA's statutory mission is to provide credit assistance only to those small businesses that cannot obtain credit elsewhere, yet can demonstrate an ability to repay. This paradox results in providing assistance to:

- non-creditworthy firms, which has led to eventual default rates of up to 52% in one guarantee program and 19% for the guarantee programs overall and a direct loan portfolio in which 35% of the loans are not in current payment status;
- creditworthy firms at more favorable terms than the 99% of small businesses that obtain financing without Federal help; or

- in the case of disaster assistance loans, only to those homeowners and businesses that can demonstrate an ability to repay—often those least in need of federally subsidized loans.

SBA also provides procurement and free management assistance to small and small minority-owned businesses. The Small Business Advocacy Office collects data on small business and represents small business interests during Federal policymaking and regulatory discussions.

ADMINISTRATION PROPOSAL

The 1987 budget proposes to achieve 5-year savings of $7.4 billion by:

- eliminating SBA's credit assistance programs and transferring the existing portfolio to the Treasury for servicing, liquidation, and sale;
- establishing the SBA as an agency within the Department of Commerce, headed by an Under Secretary for small business, to continue the Advocacy Office, the National Advisory Council, Federal procurement policy review, the small business procurement set-aside programs, and the retired executives' volunteer counseling programs; and
- improving the coordination and delivery of minority business assistance programs by combining SBA's minority procurement assistance program with the enterprise and resource development activities of MBDA.

This proposal is part of the administration's Government-wide efforts to:

- reduce unnecessary Federal intervention in credit markets, especially in areas where there are ample private alternatives like regular commercial lending and insurance; and
- improve the management and coordination of Federal programs, thereby eliminating duplication and unnecessary overhead expenditures.

At the same time, the administration's proposal would:

- elevate small business representation to the Under Secretary level within the Federal agency that is responsible for commercial policy;
- assure small business of a stronger and more effective voice within the Federal Government and Cabinet presence through the Secretary of Commerce;
- preserve procurement and management assistance programs that are the most useful to small and small minority-owned businesses and that do not compete with services offered by the private sector; and
- encourage reliance on disaster insurance available through FEMA and the private sector, in lieu of Federal loans. GAO has found that insurance is a better form of assistance than loans.

The administration will submit legislation to Congress to transfer the SBA to Commerce and its existing portfolio to the Treasury.

LEGAL SERVICES CORPORATION

The Legal Services Corporation (LSC) funds local offices that give free civil legal assistance to the poor, including both advice and lawsuits for individual clients and broader "law reform" and "class action" activities. The administration proposes to eliminate Federal funding for LSC, and to rely instead on private attorneys and other Federal programs to provide civil legal aid.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	313	292	304	315	328	340	353
Outlays	300	301	304	315	328	340	353
President's budget:							
Budget authority	n.a.	292	....	....	....	....	....
Outlays	n.a.	301	38	....	....	....	....
Deficit reduction:							
Outlays	n.a.	....	266	315	328	340	353

PROGRAM HISTORY AND CURRENT STATUS

Legal services began as a pilot project in the early 1970's, with modest funding to establish a handful of offices to meet high priority legal needs in underserved areas.

- Over the past 10 years, LSC has mushroomed into a $300 million corporation, financing offices covering every county in the United States, two dozen Federal and State "back up" support centers, law student scholarships, clients' advocacy groups, and related activities.
- Since 1981, LSC has operated without an enacted authorization, while Congress reviewed LSC's operations and debated the appropriate Federal role in civil legal aid to the poor.

ADMINISTRATION PROPOSAL

The administration proposes that LSC not be reauthorized and that no further Federal appropriations be provided. LSC funds already appropriated by the Congress would be used to:

- complete responsibilities in existing cases;
- pay separation costs for LSC and local grantee staff; and
- pay related closeout functions.

Private attorneys can and should do much more to provide legal services to the poor.

- There are over 600,000 attorneys nationwide, nearly double the number 10 years ago. A modest 20 hours of free services per attorney per year would generate as much legal aid as LSC now provides through $300 million annually in taxpayers' dollars.

- Broader use of new law school graduates and students could substantially increase availability of legal aid, and would improve their professional skills and experience by giving them valuable exposure to "real world" cases.

States can use social services block grant (SSBG) funds to supplement or coordinate increased private bar efforts.

- There is no limit or restriction on States' use of SSBG funds for legal aid, but few States use any such funds for legal services—in part because separate Federal funding for LSC has been provided by the Congress.
- The administration requests $2.7 billion in FY 1987 for SSBG—nine times the current funding level for LSC.
- Use of social services funds would enhance States' ability to tailor legal services to specific client needs, decrease overhead costs, and improve local service coordination.

CONSERVATION FINANCIAL ASSISTANCE PROGRAMS

Department of Agriculture

The Federal Government provides conservation cost-sharing assistance to private landowners, financial assistance for the construction of small watershed and flood prevention projects, technical assistance to landowners, and conducts soil and snow surveys. The President's budget proposes to terminate immediately conservation cost-sharing and watershed financial assistance but continue technical assistance, soil and snow survey, and plant materials center programs.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	n.a.	839	858	877	895	910	924
Outlays	n.a.	903	904	894	893	906	918
President's budget:							
Budget authority	n.a.	623	458	351	351	351	351
Outlays	n.a.	841	661	415	381	373	369
Deficit reduction:							
Outlays	n.a.	62	243	479	512	534	549

PROGRAM HISTORY AND CURRENT STATUS

Soil and Water Conservation programs operated through the Soil Conservation Service (SCS) and Agricultural Stabilization and Conservation Service (ASCS) have received over $25 billion in Federal funds since 1936, and are currently spending $800 million annually. Programs funded through the SCS provide:

- technical and financial assistance to farmers, ranchers, and landowners who install soil and water conservation measures on private lands;
- assistance to local sponsoring organizations in the planning and development of water resources projects, primarily small dams and drainage improvements;
- soil and snow surveys; and
- operation of plant materials centers, which evaluate, test, and develop unique varieties of plants which support conservation practices.

Funds provided through the ASCS support the following conservation cost-sharing programs: agricultural conservation, forestry incentives, emergency conservation, and water bank.

Despite these expenditures, the most recent national resource inventory identified 245 million acres of cropland (over 58% of the total) as needing some type of conservation treatment. The existing conservation financial assistance programs have failed because they have not been targeted to high priority conservation problems.

The 1985 farm bill mandated a Federal conservation reserve program to subsidize retirement of between 40 and 45 million acres of highly erodible cropland to less intensive use.

- This acreage will be signed up during the 1986-1990 crop years with contract terms of 10-15 years.
- The Federal Government will pay farmers a total of about $25 billion over the life of this program to take these lands out of production and put them in permanent cover.

ADMINISTRATION PROPOSAL

The administration's 1987 budget proposes to terminate new Federal funding for ASCS cost-sharing programs, and provides for the orderly termination of SCS services on private lands, including Federal financing for water projects. The administration's proposal provides continued Federal funding, however, for important conservation programs including:

- the conservation technical assistance program;
- the soil and snow survey; and
- plant materials centers.

The administration proposes to get rid of the current small fragmented programs and rely instead on the new 1985 farm bill to address conservation problems.

- This approach should be far more effective than past programs because it will be targeted to address specific high priority erosion problems.
- Past programs have been fragmented and untargeted, thereby missing the most serious problems on a year-to-year basis.
- Economic forces and changes in technology overwhelmed most of these efforts.
- Farmers were free to bring fragile, highly erodible lands into production whenever short-term price trends made it profitable to do so.

The administration proposal:

- mandates targeting assistance to highly erodible lands;
- contains sodbuster and swampbuster provisions that will prevent this shortsighted misuse of lands in the future; and
- authorizes the long-term conservation reserve.

Federal cost-sharing for small watershed structures is also being terminated because:

- project benefits are local in nature and are within the capability of the State and local communities to finance; and
- the Army Corps of Engineers continues to provide for large scale flood protection and multipurpose water projects.

SELECTED MARITIME SUBSIDIES

Department of Transportation

The Federal Government promotes the maritime industry through both direct and indirect subsidies. The budget proposes to terminate three ongoing subsidies—ship construction loan guarantees, aid to six State maritime schools, and research and development—and repeal the expanded cargo preference requirement enacted in the Food Security Act of 1985.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	152	569	242	169	169	170	171
Guaranteed loan commitments	38	67	70	72	75	77	79
Outlays	293	581	243	169	169	170	170
President's budget:							
Budget authority	n.a.	521	106	1	1		
Guaranteed loan commitments	n.a.	67					
Outlays	n.a.	533	112	9	1		
Deficit reduction:							
Outlays	n.a.	48	131	160	168	170	170

PROGRAM HISTORY AND CURRENT STATUS

Primarily based on national defense considerations, the Maritime Administration (MarAd) promotes/subsidizes the maritime industry through several programs, including those listed below.

- Under the loan guarantee program, MarAd subsidizes the financing of ship construction in U.S. shipyards. Since 1938, the program has guaranteed financing for more than 7,000 vessels worth over $14 billion at the time of construction. At the end of 1985, outstanding guarantees and commitments totalled $6.5 billion.
- Through support for six State maritime schools, MarAd subsidizes the addition of approximately 650 new merchant marine officers to the workforce annually. A 1982 supply/demand analysis indicated more than a 30% oversupply of merchant marine officers in 1981 and projected an oversupply through the early 1990's.
- Through its research and development (R&D) program, MarAd underwrites near-term, applied research projects to improve the efficiency of the maritime industry.

The Federal Government provides indirect assistance to the merchant marine through cargo preference laws giving U.S.-flag operators priority for carrying Government-impelled cargo.

- Until recently, the cargo preference laws required all military cargo and 50% of other Government-impelled cargo to be shipped on U.S.-flag vessels. A 1985 amendment, opposed by the administration, expands the cargo preference requirement on concessional food programs, such as Food for Peace, from 50% to 75%.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Government would:

- honor outstanding loan guarantee commitments, but make no new commitments after 1986;
- transfer to the respective States the responsibility for subsidizing the six State maritime schools;
- return to the industry responsibility for funding maritime R&D, and "privatize" MarAd's ship simulator, thereby eliminating Federal funding after 1987; and
- support the cargo preference laws as administered in the past, but seek repeal of the additional 25% requirement on concessional food programs.

Inadequate justification exists for continuing these subsidies. The often cited national defense rationale for the loan guarantee program has largely disappeared, and program cost is escalating.

- According to a recent Navy study, projected commercial repair work coupled with Navy construction and repair work will maintain an adequate shipyard mobilization base through 1990. Additional construction work stimulated by MarAd's loan guarantees is unnecessary.
- Since the beginning of 1980, less than 5% of the 2,300 vessels constructed or reconstructed with loan guarantees has been high-priority, militarily useful vessels.
- Almost $850 million of defaults have accrued since 1982. 1985 defaults totaled $321 million, and 1986 defaults are conservatively estimated at $500 million, 8% of the portfolio at the start of the year.

The expanded cargo preference requirement is an unwarranted, costly subsidy to the maritime industry.

- In 1985, it cost $38 per ton more to ship Food for Peace bulk shipments on U.S.-flag ships than on foreign-flag ships. In 1986, that differential is expected to increase to $41 per ton, reflecting the impact of the expanded cargo preference requirement. The increased Government-wide cost from the added cargo preference requirement is estimated at $54 million in 1987 alone.
- It will do little to enhance the kind of sealift capability most needed during a national emergency.
- It contradicts the administration's free trade policy and sets a poor example for our trading partners.

Given the oversupply of officers, a Federal interest in subsidizing the State maritime schools no longer exists.

- Only 32% of the 1982-1984 graduating classes from the State maritime schools were employed afloat.
- A recent MarAd study indicates that through 1995 the peacetime officer workforce should be adequate to crew available tonnage during a national emergency.

Finally, industry-specific R&D is more appropriately a private sector, not Federal, funding responsibility.

- Since 1982, less than 5% of the R&D funds has been used for projects primarily applicable to national defense. Only another 20% has had secondary application to national defense.
- The Federal Government is willing to facilitate industry-specific, joint R&D ventures and cooperative arrangements, but without Federal funding.

SEA GRANTS AND COASTAL ZONE MANAGEMENT STATE GRANTS

Department of Commerce

The national sea grant college program is designed to develop marine research capabilities by funding programs at designated sea grant colleges around the country. The coastal zone management (CZM) State grants program provides matching (80/20) funds to coastal States to implement programs that protect and develop their coastal zones. Both are proposed for termination.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	85	79	82	86	88	91	93
Outlays	76	80	82	84	87	89	92
President's budget:							
Budget authority	n.a.	16	6	6	6	6	6
Outlays	n.a.	41	17	7	6	6	6
Deficit reduction:							
Outlays	n.a.	39	65	77	81	83	86

PROGRAM HISTORY AND CURRENT STATUS

The sea grant program was originally authorized in 1966 and has developed a network of 21 colleges and 8 institutional programs covering all 30 coastal States and Puerto Rico.

- Designated colleges have particular strength in marine education and research related to ocean and coastal resource development.
- More than $460 million has been awarded to these colleges since the inception of the program 20 years ago.
- Sea grant colleges have been successful in obtaining State, local, and private funds. Fifteen State legislatures appropriate funds explicitly for sea grant studies and research.
- In 1985, State and local governments provided $26 million in matching funds for various sea grant projects.

The coastal zone management program has provided more than $500 million in grants to the States over the past 11 years.

- State structures are now in place to deal with coastal issues and implement effective coastal management programs.
- Federally approved coastal zone management programs have been instituted in 28 coastal States and territories, covering over 90% of the 95,000 mile coastline of the United States.
- The Carter administration proposed an 8-year phasedown of Federal funding. Since 1981, this administration has proposed no further funding for these grants.

- As part of the grant application process in 1982, States were required to consider alternative sources of funding and staff levels necessary to continue their coastal zone management programs in the absence of Federal funds.
- There have been recent proposals in Congress to phase in an increase in the State match requirement.

ADMINISTRATION PROPOSAL

The President's 1987 budget again proposes to terminate the sea grant program and the coastal zone management State grants program. A rescission of 1986 appropriations for both programs is proposed as well.

The sea grant program has achieved its original purpose. It is difficult to justify the expenditure of scarce Federal taxpayer dollars for such projects as:

- the publication of guides to local sportfishing;
- sportfishing tournament participation; and
- other activities of local interest or significance.

For similar reasons, the Federal Government has fulfilled its responsibility to assist the States in development of coastal management plans.

- These coastal zone management programs have been institutionalized and State and local governments should now accept full fiscal responsibility for their continuation.

The States have had sufficient notice of the administration's intent to terminate lower priority activities given current fiscal realities.

- These grants to States primarily produce local benefits. Such activities should compete with other local services for local tax dollars.
- States should be ready to assume funding of these programs as they deem necessary to address their marine research and coastal management concerns.

Funding will continue to be provided for managing designated national estuarine and marine sanctuaries. It is appropriate that the Federal Government maintain a role in acquiring, operating, and protecting the 17 estuarine and 9 marine biologically valuable sanctuaries.

THE NEW GI BILL

Department of Defense

Veterans Administration

Since July 1, 1985, the Department of Defense (DOD) and the Veterans Administration (VA) have been jointly funding and administering a 3-year trial program of enhanced educational benefits (the new GI bill) to aid in recruiting military personnel. The President's budget proposes to end this test program on October 1, 1986 (rather than July 1, 1988 as in current law), and resume the veterans educational assistance program (VEAP), which has been suspended during the new GI bill test period.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	127	309	262	227	164	304	407
Outlays	−34	−154	−9	72	139	338	467
President's budget:							
Budget authority	n.a.	n.a.	107	216	199	266	330
Outlays	n.a.	n.a.	−18	100	130	242	323
Deficit reduction:							
Outlays	n.a.	n.a.	9	−28	9	96	144

Note.—Negative outlays result in the early years when the contributions of the members of the armed services are accruing and educational outlays have not yet begun.

PROGRAM HISTORY AND CURRENT STATUS

From 1977 to 1985, military personnel received educational benefits under the veterans educational assistance program (VEAP), which is entirely funded by DOD but is administered by VA.

- The basic benefit under VEAP is contributory, with DOD matching members' contributions on a 2:1 basis up to a maximum of $2,700 (the Government's share is $5,400).
- VEAP included an additional non-contributory benefit of up to $12,000 that could be targeted as a recruiting incentive for critical occupations. Only the Army made extensive use of this benefit, called the Army college fund.
- VEAP also included a non-contributory benefit of $4,000 that was targeted to critical occupations in the Reserves.
- Under VEAP, the active forces were meeting 100% of their recruiting objectives; over 90% were high school graduates in the top three test groups.

Over the administration's strenuous objections, the 1985 DOD authorization bill created a new educational benefits program, the all-volunteer force educational assistance test program (the new GI bill). This test program runs from July 1, 1985 to July 1, 1988; VEAP is suspended during this period. The new GI bill:

- requires individuals to contribute $1,200, which is matched 8:1 by a Government contribution of $9,600. This benefit is available to all personnel enlisting during the test period;
- provides for additional non-contributory benefits of up to $14,400, which can be targeted to critical occupations. Currently only the Army offers this additional benefit, known as the new Army college fund. The program also contains a provision for an additional reenlistment benefit, which no service now plans to offer;
- contains a non-contributory benefit of $5,040 for all reservists who enlist or reenlist during the test period; and
- requires VA to fund the basic benefit for active forces.

Preliminary estimates indicate that the new GI bill has had a negligible effect on the quality of recruits. It also appears that participation rates under the new program will far exceed those experienced under VEAP, thus contributing to the program's higher cost.

ADMINISTRATION PROPOSAL

Under the administration's proposal the following actions would be taken:

- The new GI bill test would be ended on October 1, 1986.
- The VEAP program would be resumed on that same date.

The resumption of VEAP, in place of the new GI bill, will provide both significant long-term cost savings and a potential improvement in manning our Armed Forces.

- The Government cost of the basic benefit under VEAP is much lower than under the new GI bill, but, even so, provides a recruiting incentive sufficient to meet manning requirements.
- The overly generous basic benefit of the new GI bill—fostering higher participation rates (and costs) than intended—will likely result in highly skilled recruits leaving the service in order to use their benefits.
- By reducing the level of the basic benefit while retaining a comparable level of additional benefits for the Army, the return to VEAP will actually increase the relative value of the Army recruiting incentive. The Army, historically, has had the most difficult recruiting problem.

In sum, enactment of this proposal will enable the administration to maintain the high level of success in recruiting and retention that it has have experienced in recent years, while realizing significant long-term cost savings to the Government.

Social Service Reforms

MEDICARE

Department of Health and Human Services

Covering 31 million aged and disabled Americans, medicare is the Nation's largest health insurer. The President's budget proposes a variety of reforms, most of which are based on the principle that medicare should be a prudent purchaser, relying on competitive market incentives rather than simply paying bills regardless of cost.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Net outlays	65,822	68,677	74,915	83,779	93,655	104,202	115,407
President's budget:							
Net outlays	65,822	68,661	70,234	76,041	83,022	90,508	98,368
Spending reduction:							
PPS rates	n.a.	n.a.	455	545	600	660	715
Hospital capital	n.a.	n.a.	520	1,690	2,600	3,580	4,550
Indirect medical education	n.a.	n.a.	990	1,335	1,490	1,640	1,795
Direct medical education	n.a.	n.a.	210	200	150	105	80
Physician reform	n.a.	n.a.	432	543	655	744	850
Durable medical equipment	n.a.	20	70	90	110	120	140
ESRD rates	n.a.	20	90	110	125	140	160
Home health copay	n.a.	n.a.	100	110	130	140	160
Voluntary voucher (cost)	n.a.	n.a.	−50	−50	−50	−50	−50
Part B deductible	n.a.	n.a.	310	490	615	730	850
Rely on private insurance	n.a.	n.a.	540	585	635	695	770
Eligibility at 65	n.a.	n.a.	265	300	325	350	380
All other	n.a.	−23	24	3	7	5	19
Total spending reduction:							
Net outlays	n.a.	17	3,956	5,951	7,392	8,859	10,419
Financing change:							
Offsetting collections	n.a.	n.a.	725	1,787	3,240	4,834	6,620
Total deficit reduction:							
Net outlays	n.a.	17	4,681	7,738	10,632	13,693	17,039

PROGRAM HISTORY AND CURRENT STATUS

Between the start of medicare in 1966 and 1985, medical costs increased threefold in real terms, nearly doubling their claim on the Nation's gross national product.

- **From 1970 to 1980, medical costs increased by 12.7% annually.**
- **Even as this administration brought economy-wide inflation down to 4% or less a year, health care costs continued to grow at double-digit rates.**

- This general rise in medical costs, plus a growing beneficiary population, led to an explosion of Federal outlays for medicare, which rose from $6.2 billion in 1970 to $65.8 billion in 1985.

The new prospective payment system (PPS) for inpatient hospital care, implemented in 1984, has eliminated the largest engine of medicare inflation.

- Medicare no longer pays, on an open-ended basis, whatever hospitals claim as their "costs."
- By setting fixed prices for 470 diagnosis related groups (DRG's) into which each hospital admission is classified, medicare's new prospective payment system gives hospitals an incentive to provide care cost-effectively, while Peer Review Organizations play an active role in maintaining high standards of quality.

Coupled with aggressive efforts by private insurers and employers, PPS has benefited medicare beneficiaries and the Nation's taxpayers while promoting efficiency in hospital operations.

- Hospital cost inflation dropped from 11.6% in 1980 to 5% in 1985.
- In 1984, hospitals posted record operating (i.e., profit) margins, averaging 6.2%.
- The medicare trust funds have been restored to a sounder fiscal basis.

Although cost increases in hospitals—the largest component of medicare spending—are being brought under control, total medicare costs are still rising faster than the rate of inflation.

- Physician costs, the second largest component of medicare spending, grew by about 10% in 1985, despite attempts to freeze physician fees.
- Medicare costs for hospital capital and home health continue to grow at double-digit rates.

These exploding costs are still paid under the old inflation-inducing cost reimbursement system. Medicare's old payment system distorts the market, encouraging health care providers to increase charges, not to increase efficiency.

ADMINISTRATION PROPOSAL

The President's budget proposes to:

- refine PPS, fine-tuning the system and folding in hospital capital payments;
- correct distortions created over the past 20 years by medicare's inflationary cost-reimbursement system; and
- restore medicare financing to its original balance and prohibit private sector health insurance costs from being displaced onto medicare.

Refine Hospital PPS Payments

The budget makes reasonable assumptions about PPS rates.

- PPS rates are projected to increase by 2% in FY 1987, which is the middle of a reasonable range of update factors.
- Consistent with statutory requirements and latest data, the actual increase will be determined by the Secretary of Health and Human Services in September 1986.

The budget also reflects reforms in medicare payments for hospital capital.

- American Hospital Association data show that capital costs grew 18% annually between 1978 and 1984.

- This rapid growth was due in part to the incentives of cost reimbursement, which encouraged hospitals to expand. As a result, by 1985 one out of every three hospital beds were empty.
- When the Congress enacted PPS in 1983, it indicated that capital payments should be converted from cost-reimbursement into PPS by 1987.

The administration proposes to phase payments for hospital capital costs into the PPS rates paid for each admission.

- Over 5 years, payment amounts would move from an amount reflecting each hospital's historical capital costs to a uniform national rate per admission.
- Folding capital payments into the PPS rates will give hospitals the incentive to make economically efficient choices about capital investment.

The administration also is proposing to reform payments for medical education made to one-fifth of all hospitals. The proposals include:

- eliminating the windfall payment resulting from the inappropriate doubling of the indirect medical education adjustment in 1983; and
- reforming payments for direct medical education by eliminating payments for allied health professionals and classroom training, neither of which directly benefit medicare beneficiaries.

Correct Market Distortions and Enhance Competition

The administration's proposals extend market-oriented principles to other parts of medicare. These principles will correct distortions created by medicare's inflationary cost-reimbursement principles and enhance the role of competitive forces by:

- setting payment for some physician procedures and equipment at "inherently reasonable" levels, where technological and productivity advances have lowered the market price relative to medicare rates, which currently reflect only historical experience;
- revising payment rates for end-stage renal disease (ESRD) treatments, where technological change and more recent data suggest that medicare payments are too high;
- correcting a technical defect in the medicare economic index, which is used to constrain increases in the prices paid for physician services;
- instituting a modest copayment of about $5.00 for each home health visit for beneficiaries who have not been hospitalized (as the only medicare service with no coinsurance, home health is a "free good" to many beneficiaries); and
- offering beneficiaries an optional voucher to purchase private insurance as an alternative to medicare. These plans could cover more services than medicare, and beneficiaries would be free to return to medicare. (This reform builds on 1982 legislation which allowed medicare beneficiaries to enroll in Health Maintenance Organizations (HMOs).)

Restore Balance in Medicare Financing and Private Sector Costs

The administration proposes to:

- restore medicare to its original balance between beneficiary and Federal financing; and,
- prohibit inappropriate loading of private sector health care costs onto medicare.

The Part B premium would increase to cover 35% of the program's costs by 1991.

- The increase would be accomplished by raising the premium 2 percentage points per year between now and 1991.

- Thus, the 1987 premium would be an estimated $17.80, compared with $15.50 in 1985 and 1986, when the premium did not increase at all.
- This level is still low relative to historical levels—when medicare began, beneficiary premiums paid 50% of program costs compared to 25% today.
- Since low-income beneficiaries in most States have their premiums paid by medicaid, they would not be affected by this proposal at all.
- Premiums paid by third parties would be increased to 50% of program costs in 1987.

The Part B deductible would increase to $100 and rise in the future with medical inflation.

- It has increased only twice since 1966.
- If the current $75 deductible had been adjusted for past inflation, it would be $175 in 1987.

Coverage rules would be adjusted to require private insurance to pay a more appropriate share of medical costs.

- Private insurance would be relied upon for working beneficiaries over age 69 and their spouses who have access to employer-based health insurance. This proposal had Congressional support in FY 1986 reconciliation legislation.
- Medicare would be the secondary, not primary payer for these individuals.
- The principle of relying on private insurance would be extended to disabled beneficiaries who have access to coverage through a spouse's employer, as recommended by the General Accounting Office.
- Medicare eligibility would begin in the first full month after attainment of age 65.

ASSISTANCE FOR DISLOCATED WORKERS

Department of Labor

The Department of Labor has operated two programs providing job training, job finding, and relocation assistance to workers who have lost their jobs due to plant closings, technological change, increased imports, or other causes. Now that the restrictive Trade Adjustment Assistance Act (TAA) program has expired, the administration proposes to concentrate aid to these dislocated workers under the more effective and flexible provisions of the Job Training Partnership Act (JTPA).

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	249	121	126	131	135	139	142
Outlays	162	198	201	135	127	132	136
President's budget:							
Budget authority	n.a.	195	100	100	100	100	100
Outlays	n.a.	200	230	142	110	100	100
Increases from current services:							
Outlays	n.a.	2	29	7	−17	−32	−36

PROGRAM HISTORY AND CURRENT STATUS

Over the past 25 years the Federal Government has enacted more than 20 programs providing cash payments, retraining, and relocation benefits to dislocated workers. The two largest programs have been TAA, which provided cash benefits and aids to worker adjustment, and Title III of JTPA, which finances job training, job search, and relocation costs for dislocated workers.

- TAA, enacted in 1962 and liberalized in 1974, provided cash payments and readjustment benefits only to workers whose job loss had been determined to be caused, at least in part, by increased imports. Over $3 billion in cash was paid in 1980 and 1981 combined.
- The 1981 Reconciliation Act changed TAA and achieved budget savings by requiring workers to use up all unemployment benefits before drawing TAA cash payments. Nevertheless, the inequitable treatment of a special class of workers was perpetuated.
- Moreover, the TAA has failed to help workers adjust to a changing economic environment. Research has shown that extra weeks of cash benefits provide disincentives for effective job search by unemployed workers, leading them to delay adjustment in the hope that their jobs will return.

The worker adjustment program financed under Title III of JTPA also provides training, job search, and relocation assistance to a broad range of dislocated workers, without the delays caused by the TAA certification process.

- Seventy-five percent of the resources are allocated to States by formula; 25% is reserved for the Secretary of Labor to allocate to areas most in need of assistance.

- The JTPA program was financed at $223 million in FY 1984 and 1985, and provided training and job search to over 100,000 people each year.

The most efficient use has not been made of these tax dollars.

- All States receive monies even though they may not have a severe dislocated-worker problem.
- As a result, in 1986, over $200 million of prior appropriations remain to be spent.

ADMINISTRATION PROPOSAL

The administration's proposal to reform programs assisting dislocated workers includes:

- not restoring the TAA worker adjustment programs;
- a $74 million FY 1986 supplemental for the JTPA dislocated worker program that the Secretary of Labor will allocate to States according to their specific needs; and
- continuation of financing for the JPTA program in 1987 at $100 million, but with reforms allowing the Secretary of Labor to allocate the entire amount to States according to needs, not according to an arbitrary formula that spreads resources to all States regardless of need.

Assistance to dislocated workers should be timely, should help workers make needed job changes, and should go only to those areas where problems are severe.

- The TAA worker adjustment program delayed assistance beyond the time it could be helpful because of a lengthy certification process to determine eligibility.
- The TAA program provided extra cash and assistance only to selected unemployed workers, treating them differently from their neighbors who also lost jobs and faced the same problems of readjustment.
- The JTPA programs can be directed quickly to States, communities, and plants when severe economic dislocation occurs, thereby providing help when it can be most effective.
- During the time they are seeking new opportunties, dislocated workers will receive basic income maintenance benefits through the regular unemployment insurance program.

JOB CORPS

Department of Labor

The Job Corps program provides intensive remedial education and vocational skills training to economically disadvantaged youth aged 16-21 in residential centers that accommodate 40,500 youths. The President's budget proposes to reform the Job Corps by eliminating costly and ineffective centers and retaining only those that efficiently provide the best learning environment.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Budget authority	617	612	634	654	672	686	698
Outlays	593	631	595	632	654	672	687
President's budget:							
Budget authority	n.a.	416	352	357	370	382	393
Outlays	n.a.	614	398	353	357	370	382
Deficit reduction:							
Outlays	n.a.	17	197	279	297	302	305

PROGRAM HISTORY AND CURRENT STATUS

During most of the 1970's, Job Corps was able to accommodate approximately 22,000 youth at some 60 centers.

- Beginning in 1977, as part of an economic stimulus program, more Job Corps centers were acquired and capacity increased until the Job Corps reached its current program level of 40,500 youth at 107 centers.
- These centers are located in 42 States and Puerto Rico, and range in capacity from less than 200 to over 2,000.
- Because participants only stay in the Job Corps for 8 months on average, some 60,000 new participants enroll in the program each year.
- Economically disadvantaged youth trained at these centers are provided room, meals, medical care, and remedial and vocational training.
- Participants also receive a living allowance and a readjustment allowance intended to help finance starting a job in a new community after Job Corps participation.

Because of its residential structure, Job Corps is the most expensive job training program administered by the Department of Labor.

- Between 1977 and 1986, while program capacity increased by 84%, the Job Corps appropriation grew almost 133%—from $274 million to $640 million.
- Over this same period, the average annual cost of recruiting, housing, training, and placing a youth for one year in Job Corps increased from less than $10,000 to over $15,000.

- The range in cost per youth is quite large, depending on which center a youth attends; in 1985 it varied from about $12,750 to more than $21,000.

Job Corps costs can be expected to continue to grow.

- Many of the 107 residential centers, some of which are over 40 years old, have high operating and maintenance costs.
- A recent survey estimated almost $160 million would be needed over the next 5 years to cope with known construction and maintenance needs.

ADMINISTRATION PROPOSAL

The administration's proposal for reforming the Job Corps includes the following:

- eliminating immediately the worst performing or most costly centers and retaining the most efficient centers, thereby reducing program capacity to 22,000 by January 1, 1987;
- rescinding $196 million in FY 1986, phasing down the program beginning in May 1986;
- ensuring that centers provide the best possible learning environment and are distributed geographically in a manner that maximizes equitable access for poverty youth; and
- improving the design of the program through a series of pilot and demonstration projects designed to reduce costs and increase effectiveness.

By directing a reduced level of resources to the most efficient and cost-effective centers, the Job Corps can improve its services to disadvantaged youth and maintain or exceed existing levels of performance.

- Even at the reduced level, some 38,000 disadvantaged youth will enroll annually in Job Corps.
- Evidence indicates that Job Corps provides benefits to those youth who stay in the program longest. The planned reform, by decreasing costs and improving effectiveness, will increase the number of successful outcomes—offsetting, to a large extent, the decrease in capacity.

To implement this proposal, the Department of Labor will:

- review the current operations of the Job Corps program to identify cost-saving proposals; and
- assess center performance and determine which centers will be retained. (This assessment will cover many program features including center cost and performance, condition of physical plant, and proximity to other Job Corps centers.)

Phasedown will begin in May, with centers being closed between then and January 1, 1987. Youth enrolled in the program when phasedown begins will be offered every opportunity to complete a program of study.

SUMMER YOUTH EMPLOYMENT PROGRAM

Department of Labor

The summer youth employment and training program (SYETP) finances part-time, 8- to 10-week minimum wage jobs between June and August for low-income disadvantaged youth ages 14 to 21. Beginning with the summer of 1987, the President's budget proposes reforming the program by redirecting resources to areas of the country with the most severe youth unemployment problems, increasing program emphasis on literacy training, and reducing financing to $428 million annually.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	825	636	636	636	636	636	636
Outlays	776	775	672	636	636	636	636
President's budget:							
Budget authority	n.a.	428	428	428	428	428	428
Outlays	n.a.	775	496	503	428	428	428
Deficit reduction:							
Outlays	n.a.	n.a.	176	133	208	208	208

PROGRAM HISTORY AND CURRENT STATUS

The SYETP was one program component of the Neighborhood Youth Corps (NYC) established by the Economic Opportunity Act during the 1960's. It has continued relatively unchanged, with one exception, since its inception and subsequent incorporation first into the Comprehensive Employment and Training Act (CETA) in 1973 and then into the Job Training Partnership Act (JTPA) in 1982.

- Financing for these summer jobs programs under the Neighborhood Youth Corps was originally done on a project-by-project basis depending on applications from local areas.
- The only major change in the program occurred in 1975, when resources were allocated to almost 600 areas regardless of need, and financing gradually increased to ensure that the most troubled areas did not lose resources because other areas were now receiving funding.
- The current summer jobs resources are spread among 597 areas around the country. Yet almost 64% of the labor force is located in about 90 urban areas with civilian labor forces of 200,000 or more, and Census data show 62% of all unemployed youth and 85% of black unemployed youth live in urbanized areas and central cities.

Summer jobs financing has remained relatively stable for the past several summers at about $825 million. At the same time:

- the influx of youth into the summer job market has declined; and
- other public and private sector involvement in providing summer jobs has grown.

ADMINISTRATION PROPOSAL

The administration's proposal would redirect resources to areas with the most severe youth employment problems and reduce financing for the SYETP to $428 million.

- A FY 1986 rescission of $208 million will be proposed, reducing financing for the summer of 1987 to $428 million.
- Continuing this program level will save about $933 million over the next 5 years.
- Funds would be directed to areas with large economically disadvantaged youth populations and job shortages.

Directing available resources to areas most in need of assistance and increasing emphasis on literacy training is a more efficient use of scarce Federal tax dollars than allocating resources to all areas of the country regardless of relative need.

- Under the proposal, areas with large concentrations of economically disadvantaged youth will continue to receive, at a minimum, the same amount of resources as under current financing levels. Other areas will be able to maintain programs for youth under the JTPA block grant authority.
- About 425,000 subsidized summer jobs will be financed in areas with large concentrations of youth in need of summer work experience.
- A portion of the funds, at the discretion of the local area, will be directed at basic literacy training to improve longer-term job prospects for the disadvantaged youth who get the summer jobs.
- This reform returns SYETP to its original intent, where resources were targeted to those areas with significant youth labor market problems.

Appropriation language has been proposed to give the Secretary of Labor discretion to determine how best to direct these resources to the most needy areas.

VOCATIONAL EDUCATION

Department of Education

The Federal Government provides assistance to vocational education programs at the secondary and postsecondary levels. The President's budget proposes to target Federal support for vocational education to special populations beginning with the 1986-87 school year.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	838	810	844	875	903	925	948
Outlays	579	885	867	858	866	894	918
President's budget:							
Budget authority	n.a.	599	408	408	408	408	408
Outlays	n.a.	881	715	499	419	408	408
Deficit reduction:							
Outlays	n.a.	4	152	359	447	486	510

PROGRAM HISTORY AND CURRENT STATUS

The Federal Government has been contributing to State and local vocational education programs since the early part of the century.

- Federal support began in 1917 with the enactment of the Smith-Hughes Act, which still provides $7 million annually.
- The principal current source of support is the Carl D. Perkins Vocational Education Act, enacted in 1984 to replace earlier Federal legislation. Under that Act, $831 million was appropriated in 1985.

Most Federal vocational education funds are allocated to States on a formula based on population and per capita income.

- The bulk of each year's appropriation goes for basic grants used at the State and local level to expand and improve vocational education programs and to increase opportunities in vocational education for traditionally underserved populations.
- Of the funds a State receives for basic grants, 7% may be used for administrative expenses. Of the remainder, 57% must be used to support vocational education programs for special populations (the disadvantaged, the handicapped, adults in need of training or retraining, single parents and homemakers, prison inmates), and 43% for support of a variety of program "improvement and innovation" activities.
- For each dollar of Federal funds, States and localities spend almost 10 additional dollars.
- Federal funding has increased by 24% since 1981.

ADMINISTRATION PROPOSAL

Under the administration's proposal, Federal support for vocational education would:

- require that virtually all Federal resources provided to the States be used only for programs for the special populations; and
- eliminate resources for general support of vocational education, beginning in 1986 with a $210 million rescission.

Especially at the secondary level, programs that are an integral part of the core curriculum such as English, mathematics, and science, should be given a higher priority than general vocational education programs.

- The National Commission on Excellence in Education recommended that all students, not just the college bound, take 4 years of English, 4 of math, 3 of science, 3 of social studies and a half-year of computer science.
- Other studies, including those sponsored by private employers, stress the need for acquisition of basic academic, rather than vocational, skills in order to function in the workplace.

Available Federal resources should be more sharply focused on programs for the populations that have long been underserved by vocational programs: the disadvantaged, the handicapped, adults in need of training or retraining, single parents and homemakers, and prison inmates.

STUDENT AID

Department of Education

The Department of Education operates six programs that deliver $14 billion a year in grant, loan, and work-study assistance to graduate and undergraduate college students. The President's budget proposes a series of reforms designed to reduce costs and improve equity in these programs, producing outlay savings of $3.5 billion by 1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	8,941	7,965	8,275	8,330	8,341	8,404	8,657
Outlays	7,679	8,303	8,125	8,028	8,200	8,275	8,494
President's budget:							
Budget authority	n.a.	7,509	6,142	5,818	5,677	5,087	4,995
Outlays	n.a.	8,179	6,810	5,622	5,618	5,195	5,020
Deficit reduction:							
Outlays	n.a.	124	1,315	2,406	2,582	3,080	3,474

Note.—Includes proprietary receipts from default collections in all years.

PROGRAM HISTORY AND CURRENT STATUS

In 1965, the Higher Education Act authorized a comparatively simple, well-focused set of programs aimed at helping poor students finance a college education.

- The Act authorized one grant, one loan, and one work-study program, in addition to continuing the national defense student loan program begun in the late 1950's.
- Aid went predominantly to low-income students attending college full time.

In the past 20 years, program cost and complexity have exploded, resulting in an unnecessarily expensive system that defies sound management.

- There are now six programs (three grant, two loan, and one work-study) allocating funds in six different ways to different groups of eligible students.
- More than 20 different, complicated, and error-prone systems can be used to measure "need."
- Between 1969 and 1985, student aid budget outlays rose from $568 million to $7.7 billion—well over a 1,000% increase and more than 2-1/2 times the average rate of inflation of that period.

Much of this additional spending has been clearly wasteful or of dubious priority given other Federal priorities and the need for overall fiscal restraint.

- Wealthier students are receiving more aid as a result of less stringent measures of need for Federal assistance.
- Students most likely to fail or drop out are receiving more aid because a high school degree is no longer required for eligibility.

- Schools, lending institutions, and State loan guarantee agencies have received hundreds of millions of dollars in unnecessary subsidies.
- Default costs of guaranteed student loans now exceed $1 billion a year.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- simplify program structure by eliminating the State student incentive grant and consolidating current work-study and supplemental grant authorities;
- restore traditional family responsibilities by increasing expected parent and student contributions and reducing loan subsidies;
- improve program design and incentives by providing aid only to those with a high school degree or equivalent, tightening up the definition of independent student, increasing default risk-sharing with banks and loan guarantee agencies, and giving the Secretary of Education the authority to sell defaulted loans to private debt collectors;
- begin a loan approach to delivering student aid, building on the current direct student loan program, that is unsubsidized by the Government but financially manageable to students (this income-contingent loan program would allow borrower repayments to vary with earnings after school); and
- eliminate unnecessary spending by reducing bank subsidies, recalling loans to guarantee agencies, and ending administrative cost payments to schools.

These reforms would:

- provide aid on a less costly basis to taxpayers while enhancing a student's ability to manage school costs;
- retarget aid to those students who are both likely to benefit from and are in clear need of assistance;
- help bring about significant reductions in program error and abuse while curbing wasteful spending; and
- provide assistance in all programs to about 4.3 million students, about 88% of the number estimated to be served in 1986. Total aid available in 1987 would essentially equal aid proposed to be available in 1986, so average awards to needy students would actually increase.

HEALTH PROFESSIONS TRAINING SUBSIDIES

Department of Health and Human Services

The Public Health Service administers over 20 different categorical grants designed to increase the number of health professionals. Since the supply of these professionals exceeds the demand, the President's budget proposes terminating these obsolete subsidies.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	237	217	224	229	237	244	249
Outlays	196	223	224	229	237	244	249
President's budget:							
Budget authority	n.a.	66	3				
Outlays	n.a.	145	77				
Deficit reduction:							
Outlays	n.a.	78	147	229	237	244	249

PROGRAM HISTORY AND CURRENT STATUS

In 1963-1966, a basic network of training subsidies was initiated to expand the supply of health professionals.

- The programs were designed to alleviate the Nation's then-existing shortage of health professionals.
- The total Federal contribution in 1965 was $300 million.
- Now the Departments of Health and Human Services, Defense, and the Veterans Administration fund $2 billion in health professions training subsidies annually.

Twenty years of Federal subsidies have successfully eliminated the shortage of health professionals.

- Federal subsidies have resulted in a significant expansion of medical education. In 1961, there were 86 medical schools with 30,000 students, compared to 127 schools with 66,000 students in 1985.
- Since 1965, the number of professionals in every major health occupation, such as physicians, dentists, and registered nurses, has increased both in absolute number and relative to the population. For example, there were 148 doctors for every 100,000 Americans in 1965, compared to 219 in 1983—a 51% increase.
- Several major manpower studies conclude that future supply will outstrip demand. For example, the Graduate Medical Education National Advisory Committee reported that 29 of 33 physician specialties will be in excess supply by 1990.
- The excess supply will be particularly acute in several disciplines. For example, the supply of general surgeons will exceed demand by 50% in 1990.

ADMINISTRATION PROPOSAL

The administration proposes to:

- terminate all Public Health Service health professions direct grants;
- continue to assure students' access to health professions education by providing $100 million in new guaranteed loan commitments under the health education assistance loan (HEAL) program; and
- in order to assure the solvency of the HEAL program, continue implementing the program's management reforms mandated by the recently enacted Health Professions Training Assistance Act.

Given the growing supply of medical personnel, continuing the health professions grants represents an inappropriate upper-income subsidy.

CHILD NUTRITION SUBSIDIES

Department of Agriculture

The child nutrition programs subsidize meals served in schools, child care institutions, and summer camps. The President's budget again proposes to target these benefits to low-income students, as well as to increase comparability of subsidy rates across child nutrition programs.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	3,805	3,873	4,233	4,550	4,896	5,229	5,579
Outlays	3,665	3,867	4,197	4,518	4,861	5,196	5,544
President's budget:							
Budget authority	n.a.	3,873	3,458	3,718	3,969	4,220	4,479
Outlays	n.a.	3,867	3,500	3,692	3,943	4,195	4,453
Deficit reduction:							
Outlays	n.a.	n.a.	697	826	918	1,001	1,091

PROGRAM HISTORY AND CURRENT STATUS

School lunch, the largest of the child nutrition programs, began in the 1930's as an outlet for surplus farm commodities. It has since been joined by the school breakfast, child care feeding, and summer feeding programs.

- Meals are now subsidized in non-school settings such as child care centers and summer camps.
- Legislation has increased the level of subsidies, linked the amount of subsidy to household income, and converted the programs to entitlements.

All students in participating schools, regardless of household income, are eligible for school lunch subsidies.

- Upper income students in school breakfast programs and child care centers also receive subsidies.
- Half of the students receiving school lunch subsidies are from households with incomes above 185% of poverty—$20,400 for a family of four in 1987—with a cost to taxpayers of $511 million in FY 1987.
- Children from households with incomes below 130% of poverty receive free meals, while those with incomes between 130% and 185% of poverty are eligible for reduced price lunches costing no more than 40 cents.

All participants in family day care homes receive identical subsidies—regardless of household income. Yet, studies indicate that two-thirds of these children come from upper income families.

ADMINISTRATION PROPOSAL

The President's budget proposes to discontinue subsidies to schools and child care centers for meals served to students from households with incomes above 185% of poverty. An income eligibility test would be reinstituted in family day care homes, and subsidies for participants above 185% of poverty would be discontinued.

Federal subsidies should be limited to providing nutritional assistance to low-income families, not to those who can easily afford to finance their children's lunches.

- Upper income families would be asked to contribute an additional 25 cents a school day, or $41 annually, for their children's lunches. Prepared school lunches would remain a bargain compared to home or commercial alternatives.
- No lower income students would be affected. Participants below 130% of poverty—an estimated 10.4 million—will continue to receive free meals.
- Subsidies for lower-income students account for 85% of current Federal school lunch subsidies. Therefore, schools would continue to receive substantial Federal assistance.
- There is no need to federally subsidize upper income students to ensure the availability of free meals for the needy.

MEDICAID

Department of Health and Human Services

State-run but jointly financed (55% Federal share), medicaid provides health care for the poor. The budget proposes to limit Federal medicaid cost growth to reasonable levels, provide States more flexibility to control costs, and ease States' reporting burdens while concentrating Federal payments on medical care rather than medically unnecessary services and administrative overhead.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	21,846	24,441	25,988	28,436	30,651	32,870	35,134
Outlays	22,655	24,686	25,988	28,436	30,651	32,870	35,134
President's budget:							
Budget authority	n.a.	24,441	24,708	25,814	27,188	28,525	29,787
Outlays	n.a.	24,686	24,708	25,814	27,188	28,525	29,787
Deficit reduction:							
Program reforms	n.a.	n.a.	280	299	308	316	323
Reasonable growth limit	n.a.	n.a.	1,000	2,323	3,155	4,029	5,024
Total	n.a.	....	1,280	2,622	3,463	4,345	5,347

PROGRAM HISTORY AND CURRENT STATUS

Medicaid was enacted as part of the Social Security Amendments of 1965.

- It provides medical care for poor people.
- It is run by the States.

Medicaid costs have grown explosively in the absence of Federal efforts to control them.

- Between 1972 and 1982, medicaid expenditures grew at 14.2% annually, while Federal revenues grew only at 11% and inflation averaged 8.7%.
- In 1982 through 1984, when legislated growth targets and incentives for cost control were in place, States held Federal medicaid outlay growth to 5.4% a year.
- Nominal growth of 8% per year is projected from FY 1987 through FY 1991 for medicaid, nearly double the expected medical inflation rate.
- Congress has not legislated any major, mandatory cost reforms since 1981.

ADMINISTRATION PROPOSAL

The administration proposes to:

- limit FY 1987 Federal payments for medical assistance to $1 billion below projected current services outlays, or $23.65 billion;

- include a special $300 million contingency fund for States, which, despite aggressive cost control efforts, have unusual cost increases;
- allow Federal FY 1988-91 medicaid payments to each State to increase by the cumulative growth of the medical Consumer Price Index;
- introduce new program flexibility to eliminate Federal obstructions to State and local discretion in controlling medicaid costs and delivering new, more efficient services;
- reduce inappropriate Federal medicaid payments where recipients are eligible for private and employee based health insurance (third party liability);
- aggressively implement the current policy of no Federal reimbursement for non-medically necessary educational and vocational services;
- implement a new survey and certification initiative to ensure good quality health care by rigorously limiting Federal reimbursement to up-to-standard, in-compliance facilities; and
- reduce States' burdens in tracking, allocating, and reporting administrative costs by replacing a complicated and disparate set of matching rates with a uniform 50% Federal matching rate.

States have the ability to control medicaid costs. When they do, savings accrue to both State and Federal governments.

- The President's 1987 budget is fair, permitting an annual rate of medicaid growth tied to the medical Consumer Price Index.

A growth limit on Federal medicaid funds will:

- result in significant Federal saving and link medicaid expenditures to the Nation's ability to pay;
- limit future State cost shifts to the Federal Government; and
- promote health care competition, lowering health care prices for all payers.

FOOD STAMP ADMINISTRATION

Department of Agriculture

Food stamps are given to low-income individuals to increase their food purchasing power. The President's budget proposes reforms to strengthen and improve work requirements, reduce erroneous benefit payments, and simplify Federal reimbursement of State administrative expenses.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	11,752	11,832	11,829	12,285	12,639	12,900	13,060
Outlays	11,701	11,736	11,817	12,271	12,623	12,894	13,054
President's budget:							
Budget authority	n.a.	11,762	11,519	11,885	12,132	12,328	12,487
Outlays	n.a.	11,667	11,504	11,868	12,117	12,322	12,482
Deficit reduction:							
Outlays	n.a.	69	313	403	506	572	572

PROGRAM HISTORY AND CURRENT STATUS

Food stamps differs from other major welfare programs (e.g., aid to families with dependent children (AFDC) and medicaid) in two ways.

- The States do not share in the cost of benefits.
- The program is governed by national eligibility criteria and benefit levels. During 1987, more than 35 million people—an average of 19.5 million individuals monthly—will receive food stamps at a cost of $11.5 billion.

The Federal Government will spend nearly $2 billion to deliver $9.5 billion in benefits to eligible recipients:

- The States will be paid approximately $1 billion to administer the program and issue benefits.
- An estimated $850 million in benefits will be issued erroneously.
- Under current law, States have little incentive to improve their administration of the food stamp program.
- In 1984, States were held liable for only one-tenth of the food stamps they issued erroneously.

ADMINISTRATION PROPOSAL

The administration proposes to:

- reform Federal funding for State administrative costs. Most administrative costs are shared evenly between the States and the Federal Government, but special higher matching rates are available to induce computerization and anti-fraud activities. As States adopt sound practices, special matching rates would be phased out;

- build upon work provisions enacted in the 1985 farm bill by applying work requirements to all employable food stamp applicants and recipients; and
- after disregarding the first $500 million in erroneously issued benefits (5% of all food stamp benefits), hold States liable for the full dollar value of benefits they issue erroneously. State liabilities would be increased to one-third of erroneous payments.

The administration's proposed reforms would improve State administration and operation of food stamps.

- More applicants and recipients would acquire work experience and skills that would help them find jobs. Self-reliance would be fostered.
- Reimbursement of State administrative costs would be streamlined through elimination of varying matching rates. States would receive a uniform administrative match regardless of whether expenditures are made for food stamps, AFDC, or medicaid, or for personnel to detect fraud or to detect administrative errors.
- States would have a greater incentive to reduce their erroneous payments. Increasing States' fiscal responsibility for their erroneous payments would encourage investment in error prevention.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Department of Health and Human Services

Aid to families with dependent children (AFDC) helps States finance cash assistance for needy families in which children are deprived of parental support due to death, disability, or continued absence of a parent from the home. The President's budget proposes several legislative reforms to increase the efficiency and effectiveness of this program.

FUNDING SUMMARY

(In millions of dollars)

	1985	1986	1987	1988	1989	1990	1991
Current services:							
Budget authority	8,572	8,995	8,441	9,265	9,480	9,667	9,828
Outlays	8,625	9,074	8,441	9,265	9,480	9,667	9,828
President's budget:							
Budget authority	n.a.	8,995	8,203	9,032	9,248	9,428	9,597
Outlays	n.a.	9,074	8,203	9,032	9,248	9,428	9,597
Deficit reduction:							
Outlays	n.a.	....	238	233	231	239	231

PROGRAM HISTORY AND CURRENT STATUS

Historically, AFDC has been designed to provide assistance to families who are temporarily unable to provide for themselves.

- In the 1930's, aid was focused on families in which one parent had died.
- During the depression, work opportunities for the other parent were usually scarce.

Over time, the program was liberalized and the population changed so that in recent years many families who were working in private jobs nonetheless received AFDC income supplements, and many other families which had a parent who could and should be working to support the family were receiving AFDC.

- In some cases, families with $15,000 in income could still receive AFDC.
- In more than half the States, AFDC is paid to families in which both parents are present in the home.

Reforms enacted during this administration have substantially refocused AFDC on its original purpose as a program for those in greatest need.

- Income is now more fully taken into account in determining need for AFDC purposes.
- Tighter asset tests and eligibility rules have been put in place to reduce program abuse.
- Opportunities for work and work experience have been expanded.

ADMINISTRATION PROPOSALS

Under the administration's 1987 budget proposals:

- All employable AFDC applicants and recipients would be required to participate in some form of work-related activity as a condition of eligibility.
- Unmarried minor mothers who leave their parent's home would not be eligible for AFDC.
- When an AFDC family's youngest child reaches age 16, the employable parent no longer would be eligible for AFDC (although the child's benefit would continue).
- Federal funding for State and local AFDC administrative costs would be reformed. Special 90% Federal matching for computer-related costs would be phased out over several years, and a uniform 50% matching rate for all administrative costs would be instituted in AFDC, medicaid, and food stamps.

These reforms will strengthen the AFDC program in several ways.

- Experience has shown that AFDC work-related programs can give recipients work skills to help them find private sector jobs, as well as provide useful public services. Self-support through private employment would be encouraged. The choice would not be between work or AFDC, but between work in exchange for AFDC or work in exchange for wages.
- Undesirable incentives for minor parents to leave home and use AFDC to establish financial independence would be eliminated. Parental responsibility and family stability would be enhanced.
- AFDC parents of older children, who are sufficiently free from child care responsibilities to pursue private employment, would have a new incentive to do so.
- Complicated and disparate Federal matching rates for State welfare administrative costs would be streamlined, and Federal budget savings from reduced overhead costs would occur.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

Department of Agriculture

The special supplemental food program for women, infants, and children (WIC) provides monthly food supplements to low-income women, infants, and children who are determined to be at nutritional risk. The President's budget proposes to fund WIC at $1.62 billion in 1987; States will be encouraged to target benefits to highest risk participants through adjustments in their funding allocations.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	1,500	1,560	1,632	1,704	1,772	1,838	1,900
Outlays	1,495	1,581	1,627	1,698	1,767	1,833	1,895
President's budget:							
Budget authority	n.a.	1,560	1,617	1,630	1,695	1,757	1,817
Outlays	n.a.	1,581	1,613	1,629	1,690	1,752	1,812
Deficit reduction:							
Outlays	n.a.	n.a.	14	69	77	81	83

PROGRAM HISTORY AND CURRENT STATUS

Congress created WIC in 1972 as a 2-year $20 million pilot project. Since that time, it has grown dramatically.

- In 1986, WIC is expected to serve approximately 3 million participants nationwide—the highest participation levels in the program's history. Twenty-five percent of the infants under one year of age in the United States receive WIC benefits.
- The 1986 funding level of $1.56 billion is almost 80 times larger than the pilot grant, and more than double the 1980 cost.

The WIC program provides participants with vouchers for nutritious foods like fruit juices, dairy products, and infant formula, which are redeemable in grocery stores. Participants also receive nutrition education and counseling.

- Low-income pregnant, breastfeeding and post-partum women, infants, and children up to age five are eligible for these specialized food packages.

Program regulations identify six participant priority categories, based on nutritional risk. For example, pregnant and breastfeeding women and infants with nutrition-related medical conditions are considered at higher risk than children with poor dietary patterns.

- With the rapid expansion of WIC, some States have focused more on increasing caseloads than on targeting their resources to those at greatest nutritional risk.

- Some States have low percentages of high-risk participants in their caseloads—as few as 25% of their WIC recipients are women and infants. Nationwide, half of the WIC caseload is composed of lower priority children.

ADMINISTRATION PROPOSAL

The President's budget proposes a 1987 WIC funding level of $1.62 billion. The administration will encourage States to serve higher percentages of high risk participants by gradually adjusting State grant allocation formulas. Those States that have made an effort to recruit high risk participants will be rewarded with additional funding.

- The requested funding represents a 3.6% increase over the 1986 appropriation provided by Congress—despite extraordinary fiscal stringencies.
- This record-high funding level will be sufficient to fund the anticipated 1986 yearend caseload.
- Available resources should be targeted to those in greatest need, especially in a discretionary grant program.
- The administration's policy will encourage States that have not targeted their caseloads well to shift more of their WIC resources to high-risk participants. Nationwide, more WIC dollars will be directed to the highest priority recipients.

VETERANS MEDICAL CARE

Veterans Administration

The Veterans Administration (VA) provides no-cost medical care to eligible veterans. The President's budget proposes comprehensive medical care reforms—means-tested eligibility for non-service-connected and non-poor veterans, collection of payments from health insurers for VA care, and a restructured long-term care policy to serve more veterans.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	8,976	9,151	9,490	9,832	10,113	10,415	10,701
Outlays	8,742	9,088	9,380	9,725	10,002	10,301	10,582
President's budget:							
Budget authority	n.a.	9,140	8,941	8,857	8,822	9,092	9,349
Outlays	n.a.	9,078	8,801	8,742	8,717	8,994	9,253
Deficit reduction:							
Outlays	n.a.	10	579	983	1,285	1,307	1,329

PROGRAM HISTORY AND CURRENT STATUS

The VA medical system began after the Civil War with eight national soldiers homes and has expanded over the years to include 172 hospitals, 228 outpatient clinics, 119 nursing homes, and 16 domiciliary facilities.

- The primary mission of the VA is to treat veterans injured during military service. Care for other veterans is provided on a space-available basis. In 1985, VA provided for 1.4 million hospital visits and over 19 million outpatient visits. More than half of the care provided was for veterans who were not injured in military service.
- In 1934, eligibility for non-service-connected veterans was supposedly limited to those unable to pay for their care. It was not until 1980, however, that the Congress authorized VA to "look behind" the veteran's oath of poverty and develop a means test for veterans under age 65, a test that has not yet been implemented.
- In 1970, care to all veterans over the age of 65, regardless of their ability to defray costs, was authorized as an alternative to medicare, which, at that time, was more costly to the Federal Government.
- Some 30% of veterans who use VA facilities have private health insurance policies. However, exclusionary clauses in these policies prevent VA from recovering the costs of care provided in VA facilities.

VA also provides long-term care for veterans through three nursing home care programs and a variety of non-institutional programs.

- Nursing home care is provided to 74,800 patients in VA-owned and operated facilities at an average 1985 cost of $114 per day, in community facilities on a contract basis at $64 per day, and in State facilities where VA pays 65% of construction costs and a per diem of $17.

The 1986 budget proposed to reform medical care eligibility and to collect payments from health insurers (third-party reimbursement).

- Both the House and Senate FY 1986 reconciliation bills include the administration's third-party reimbursement proposal and limited eligibility reforms.

ADMINISTRATION PROPOSAL

The administration's 1987 proposals would:

- clarify and extend the means-tested eligibility framework established in 1980 by requiring that all non-service-connected veterans with incomes above twice the VA pension level ($15,420 for a family of two and $19,416 for a family of four) use a portion of their income to purchase private medical care before becoming eligible for VA-provided care at no charge;
- remove exclusionary clauses now in private health insurance policies and require insurers to pay for covered non-service-connected veterans treated by VA, which will result in Federal receipts of at least $250 million per year; and
- restructure and enhance VA's long-term care policy to shift the emphasis to: (1) VA-sponsored State and community nursing home programs, which are less costly than VA-owned nursing homes; and (2) non-institutional alternatives, which provide greater flexibility for delivering appropriate care.

These reforms will treat veterans fairly and provide a quality health care system at a lower cost to the taxpayer.

- The means-test reform allows maximum resources to be available for service-connected and low-income veterans, the primary groups for whom the Government has a responsibility.
- Third-party reimbursement prevents insurance companies from shifting their responsibility and costs to the taxpayer.
- The nursing home care reforms allow for more veterans to receive care with the same dollars because VA-sponsored State and community programs are the least expensive way for VA to provide the care.

WORK INCENTIVE PROGRAM

Department of Labor

Department of Health and Human Services

The Departments of Labor and Health and Human Services jointly administer the work incentive (WIN) program, which provides job search, employment counseling, and social services to those adults applying for and receiving benefits under aid to families with dependent children (AFDC). The President's budget proposes eliminating WIN in FY 1986, saving $249 billion per year by 1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	267	211	220	229	237	244	250
Outlays	279	217	216	227	235	243	249
President's budget:							
Budget authority	n.a.	165					
Outlays	n.a.	180	25	5			
Deficit reduction:							
Outlays	n.a.	38	191	222	235	243	249

PROGRAM HISTORY AND CURRENT STATUS

The WIN program was developed in the early 1960's to help individuals receiving AFDC benefit payments train for and find work.

- While originally intended to emphasize job training, over time WIN has evolved into a job placement program duplicating services provided to AFDC recipients by other Government programs.
- Three dollars in four of WIN's 1985 appropriation of $267 million were spent for State salaries and agency overhead; less than 23% was spent for job training.

Several times the administration has proposed eliminating WIN in favor of greater State responsibility for AFDC work-related activity, reliance on the Job Training Partnership Act (JTPA) for providing Federal financing of job training for AFDC recipients, and reliance on the social services block grant for supportive services.

- While Congress has continued financing for WIN, the program has not been a priority.
- Congress has cut WIN's budget from $365 million in 1981 to $220 million in 1986, a reduction of 40%.

WIN costs taxpayers more than it saves in reduced welfare costs.

- Study after study has shown that, overall, WIN does not effectively enable AFDC recipients to leave the welfare rolls and become economically independent.

- A 1982 GAO report found that reduced welfare costs directly attributable to WIN were much less than the costs of the program; only $91 million in savings was attributed to WIN for 1980, yet the program spent $395 million. This is a return to the taxpayer of about 25 cents for every tax dollar spent.

ADMINISTRATION PROPOSAL

The administration's proposal would eliminate financing for WIN in the last quarter of FY 1986.

- A proposed $45.9 million rescission would eliminate the program by September 30, 1986.
- By eliminating the program altogether, more than $1.1 billion will be saved over 5 years.

Continuing the WIN program perpetuates existing inefficiencies and duplication created when separate Federal programs provide identical services to the same population.

- The Job Training Partnership Act (JTPA) requires that the AFDC population be provided with job training and job finding services and provides more resources for training than WIN.
- In the last JTPA program year, 151,000 AFDC recipients enrolled in JTPA job training programs; 95,000 were placed in jobs or took further training, a 63% positive outcome rate.
- The social services block grant provides money to States that they may use for programs they find best prevent, reduce, or eliminate dependency of the AFDC population.
- Many States also have established their own welfare work-related programs, often coordinating services with local JTPA programs.
- State-level innovation in this program area will be further encouraged through legislation being proposed to establish comprehensive programs of work-related activity for AFDC applicants and recipients in all States; those who are able to work would be required to do so as a condition of benefit eligibility.

REFUGEE AND ENTRANT ASSISTANCE

Department of Health and Human Services

The refugee and entrant assistance program provides funds to States for the costs of providing direct cash and medical assistance to needy refugees and entrants, as well as English language, vocational training, and other social services. The President's budget proposes several reforms designed to encourage early self-sufficiency of refugees and limit payments to States.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	444	409	449	446	424	393	375
Outlays	442	414	447	457	436	406	385
President's budget:							
Budget authority	n.a.	322	374	372	352	323	305
Outlays	n.a.	393	343	368	345	307	302
Deficit reduction:							
Outlays	n.a.	21	104	89	91	99	83

PROGRAM HISTORY AND CURRENT STATUS

The Refugee Act of 1980 authorized funding for this program to ease refugees' and entrants' adjustment to American society and to assist them in becoming independent and self-sufficient. Since then, declining refugee admissions have reduced the need for the special assistance given through this program.

- Refugee admissions and entrant flows to the U.S. have decreased by about 70% from 210,000 in 1980 to 67,000 estimated in 1986. Declining arrivals are expected over the next several years.
- In 1981, over $900 million was appropriated for refugee and entrant assistance, but less than half that amount was appropriated under the 1986 Continuing Resolution.

The refugee authorization for this program expired at the end of FY 1983, and the program has not yet been reauthorized.

- Since that time, the program has been operating under continuing resolutions, and spending, while declining, has exceeded the amounts requested.
- The 1984 budget request was $485 million, compared to the $541 million enacted in that year.
- The 1986 budget request was $317 million, compared to the $428 million enacted.

ADMINISTRATION PROPOSAL

The administration's proposals would:

- funnel all cash and medical assistance to refugees and entrants through the refugee and entrant assistance program under uniform eligibility rules tailored to refugee circumstances; and
- give money to States for the initial resettlement of refugees for the first 18 months after a refugee arrives in the United States, rather than 36 months as currently.

These proposals would reduce welfare dependency by refugees and entrants and eliminate unnecessary payments to States.

- With support funnelled strictly through the refugee and entrant assistance program rather than through the myriad of programs now providing assistance, specialized resettlement organizations and ethnic groups will be better able to serve the needs of refugees and encourage their early self-sufficiency.
- Reduced arrivals and fewer refugees eligible for assistance eases the financial burden of providing cash and medical assistance.

BIOMEDICAL RESEARCH

Department of Health and Human Services

The National Institutes of Health (NIH) funds biomedical and behavioral research and research training conducted in universities, medical schools, independent research institutions, and Federal laboratories. The President's budget proposes to stabilize Federal support for NIH by funding 18,000 research grants in 1987, with modest increases in research costs, and by capping Federal payments for overhead costs allocated by universities.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	5,152	5,258	5,368	5,577	5,756	5,915	6,046
Outlays	4,670	5,263	5,386	5,573	5,752	5,910	6,042
President's budget:							
Budget authority	n.a.	5,181	4,936	4,936	4,936	4,936	4,936
Outlays	n.a.	5,221	5,033	5,080	4,936	4,936	4,936
Deficit reduction:							
Outlays	n.a.	42	353	493	816	974	1,106

PROGRAM HISTORY AND CURRENT STATUS

Since its inception in 1887, the National Institutes of Health has grown to become the Nation's largest supporter of basic biomedical research. Since the early 1970's, NIH has steadily increased its reliance on investigator-initiated research grants to support biomedical scientists.

- In the 10 years since 1976, the NIH budget has increased from $2.3 billion to $5.2 billion—a 126% increase.
- Over the same period, NIH support for research grants increased from $904 million to $2,770 million—a 206% increase.

Excessive attention on the first-year costs of new grants, and rapid increases in these costs, combine to threaten the long-term sustainability of a balanced program of Federal support for biomedical research.

- Since NIH usually promises 3 years of support to research grant recipients, congressional increases in new grants result in unbudgeted costs for subsequent years.
- Inappropriate focus on the first-year costs and the number of new research grants as the sole measure of activity—rather than total costs and total grants—masks a larger pattern of research instability and ignores dramatic fluctuations which may occur in research funded in other ways.
- Since 1981, the average cost of a research grant has increased at twice the rate of inflation.

ADMINISTRATION PROPOSAL

In recognition of the importance of the investigator-initiated research grant, the administration proposes to fund 18,000 such research grants per year.

- Under the 18,000 grants policy, NIH will support over 54,000 research grants over FY 1985-1987—the highest 3-year total in the history of NIH.
- The 18,000 commitment avoids the long-term de-stabilizing effects of focusing solely on the marginal change in new grants funded in any given year, and maintains the balance between grants and other types of research support.

To sustain a long-term 18,000 grants policy, and to respond to congressional concerns about the excessive growth in research costs, the administration proposes a modest increase in the average cost of NIH research grants.

- In the conference report discussing the 1986 appropriation for the National Institutes of Health, the Senate and House conferees agreed that "greater cost consciousness is necessary, and could lead to the funding of many more projects within available funds."
- Prompted by Congress, the NIH will use the savings resulting from restrained growth in research costs to fund additional grants.

The administration intends to impose a Government-wide cap on Federal payments for overhead costs allocated to Federal research grants by universities. Twenty percent of direct research costs represents an appropriate Federal payment for university-allocated overhead.

- Yearly increases in university overhead allocations have resulted in the redirection of $250 million a year from research to university overhead.
- Recent reports by the Inspector General of the Department of Health and Human Services, and the Office of Science and Technology Policy each recommend establishing a fixed rate for university overhead payments.

The combined policies of 18,000 grants per year, reasonable increases in research costs, and imposition of a cap on Federal payments for university overhead will permit a continued, long-term, and sustainable Federal commitment to maintain NIH's unparalleled record of excellence in supporting biomedical research.

INDIAN HEALTH SERVICE

Department of Health and Human Service

Employing about 11,000 Federal staff, the Indian Health Service (IHS) gives free health care to over 970,000 American Indians and Alaskan Natives. The President's budget proposes to expand the use of private capitation plans (e.g., health maintenance organizations), strengthen management, intensively pursue third-party reimbursements, encourage greater cooperation with States and improve the distribution of resources among the IHS service delivery areas.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	863	857	865	894	923	951	977
Outlays	872	837	874	886	911	939	966
President's budget:							
Budget authority	n.a.	794	725	725	725	725	725
Outlays	n.a.	809	763	738	728	730	728
Deficit reduction:							
Outlays	n.a.	28	111	148	183	209	238

PROGRAM HISTORY AND CURRENT STATUS

Since the early 1800's, the Federal Government has given free health care to American Indians. Treaties with Indian tribes, which promised or implied federally provided health care, form the basis for the current health policy toward Indians.

- The Indian Health Service operates 47 hospitals and over 300 health centers.
- With Federal funds, Indian tribes operate five hospitals and over 200 health clinics.
- Health care is provided free of charge to all Indians who request service and are members of federally recognized tribes, regardless of ability to pay or the availability of employer-provided or other health insurance coverage.

The increased cost of Indian health care, especially contract care, is forcing IHS to search for cost-saving improvements in the current IHS delivery system.

- IHS pays above-normal rates for contract health care.
- The Indian Health Service spent $841 per eligible Indian in 1985 for health services, in contrast to the Pascua-Yaqui health maintenance organization (operated by the Indian Health Service in Tucson, Arizona), which cost only $678 per eligible member.
- The Indian Health Service frequently pays for health care given to medicaid eligible Indians.
- Since FY 1981, Congress has provided nearly $150 million for IHS hospital and clinic construction. Of this total, nearly $40 million remains unobligated. Thus, further construction funding currently is unnecessary.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- replicate cost-saving capitation plans similar to the Pascua-Yaqui health maintenance organization and the Pawnee benefits package;
- institute management and reimbursement reforms such as obtaining information from States that would facilitate proper billing for services provided to medicaid eligible Indians;
- initiate a phased redistribution of resources to direct funding to IHS service delivery areas with the greatest need as measured by indicators of each area's health status (indicators of health status include infant mortality, alcoholism, and other morbidity statistics);
- phase out marginal activities such as sanitation construction, outreach/referral projects, and counseling; and
- establish a moratorium on hospital/clinic construction.

IHS should continue to adopt private sector models and management systems that increase efficiency and improve service.

- The health maintenance organization operated by IHS costs 20% less per eligible Indian than regular IHS care.
- Improvements in IHS's information system have already contributed to increased medicare/medicaid and other third-party reimbursements, thus enhancing IHS's access to resources.

RAILROAD RETIREMENT

Railroad Retirement Board

The Railroad Retirement Board (RRB) pays social security equivalent benefits, rail industry pensions, federally funded windfall payments, and supplemental annuities to railroad retirees, and administers a unique unemployment and sickness program for the rail sector. The President's budget proposes to reduce taxpayer subsidies to the rail sector, to correct rail pension anomalies, and to ensure sound financing of unemployment benefits for rail workers.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	4,569	5,820	5,096	4,986	4,837	4,825	4,690
Outlays	4,129	4,002	4,097	4,217	4,382	4,461	4,428
President's budget:							
Budget authority	n.a.	5,820	5,096	4,986	4,837	4,825	4,690
Outlays	n.a.	3,999	3,936	4,038	4,200	4,280	4,250
Deficit reduction:							
Outlays	n.a.	3	161	179	182	181	178

PROGRAM HISTORY AND CURRENT STATUS

Railroad retirement is the only private sector pension system exempt from the Employee Retirement Income Security Act of 1974, subject to ad hoc Federal law, and administered by Federal employees. The system has evolved into a social security plus private industry pension plan.

- In FY 1985, Federal taxpayers provided over $1 billion in subsidies to the rail industry pension system.
- According to the Congressional Budget Office, the average rail employee receives 105% of his take-home pay in subsidized retirement benefits.
- Former rail employees and their spouses gained unintended benefits, or windfalls, when railroad retirement was not coordinated with social security.
- In a sector with average annual wages in excess of $34,000 per rail worker, annual Federal subsidies for windfalls exceed $1,000 per employee.

Legislation in 1983 averted bankruptcy in the rail pension system and partially addressed the railroad sickness and unemployment insurance system's financial difficulties.

- Despite these measures, RRB actuaries have warned that "the long-term stability of the railroad retirement system is still questionable," and the sickness and unemployment fund remains in dismal financial condition.
- Currently, 370,000 rail employees help support a pension system for some 1 million beneficiaries. RRB actuaries project a 20% drop in rail employment between 1986 and 1991, but recent data suggest larger declines are likely. Workers will become less able to support their retirement system as beneficiaries will decline only 8%.

- The Congressional Research Service found in 1983 that the rail sickness and unemployment insurance fund "is insolvent and has been for 18 of the last 23 years." Since 1983, the fund has remained insolvent, and may be unable to pay full benefits in 1986.

ADMINISTRATION PROPOSAL

Enactment of the administration's proposals would eliminate inappropriate subsidies and reduce the deficit by $1.4 billion over FY 1987 through 1991 by:

- financing only 75% of windfall subsidies from Federal appropriations, the rest to come from the rail sector. Because of certain pension offsets, the private cost would be less than 25%;
- extending Federal/State unemployment insurance coverage to railroad employees. After a transition period, all rail workers would be eligible for generally higher, soundly-financed state benefits;
- correcting legislative anomalies that inequitably favor some rail industry pensions for income tax and cost-of-living adjustment purposes;
- requiring reviews of railroad retirement disability beneficiaries' eligibility. Social security pays more to finance railroad disability benefits than it should because eligibility of railroad disability beneficiaries is not reviewed on a regular basis;
- offsetting railroad retirement disability benefits by the amount beneficiaries receive under the Federal Employers' Liability Act (FELA), the rail sector equivalent of workers' compensation. Social security pays more to finance railroad disability than it should because rail sector workers' compensation is not treated like all other workers' compensation, which offsets disability payments;
- moving toward the goal, advocated by rail sector representatives, of a self-sufficient railroad retirement system. The railroad retirement trust funds would pay the full costs of retirement benefits for employees of the Railroad Retirement Board. Some 60% of these costs are currently financed by general fund appropriations.

While the administration considers the rail industry pension system an inappropriate Federal function, and again proposes restoring the rail pension to the private sector to benefit everyone involved, it also seeks immediate improvements to the system.

Government Management Reforms

CREDIT MANAGEMENT REFORMS

Credit Program Phaseouts and Reductions

Directly or through its sponsored enterprises, the Federal Government loaned and guaranteed more than a $1 trillion of the Nation's nearly $7 trillion of debt outstanding at the end of 1985. The President's budget proposes to phase out or reduce many loan and loan guarantee programs, in order to diminish the Government's intervention in the Nation's lending markets.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Direct loan obligations	12,367	9,378	10,844	11,222	11,413	11,932	12,108
Guaranteed loan commitments	12,085	17,863	16,818	17,176	17,816	18,392	18,890
Outlays	n.a.	10,699	8,117	7,062	5,872	5,702	5,525
President's budget:							
Direct loan obligations	n.a.	9,605	2,092	1,406	691	....	....
Guaranteed loan commitments	n.a.	15,396	15,665	16,205	16,590	17,122	17,148
Outlays	n.a.	9,501	3,973	1,973	346	−402	44
Deficit reduction:							
Outlays	n.a.	1,198	4,144	5,089	5,526	6,104	5,481
Outlays (net of other fact sheets)	n.a.	240	1,006	586	558	1,476	1,509

Note.—This is a summary of all programs for which significant reductions are proposed in direct loan obligations and guaranteed loan commitments.

PROGRAM HISTORY AND CURRENT STATUS

Since the New Deal, the Federal Government has become the Nation's largest lender, providing billions of dollars in financial subsidies to farmers, homeowners, students, businesses, and State, local, and foreign governments.

- In 1985, the Government made $53 billion in new loans and $85 billion in loan guarantees. The subsidies inherent in these loans and guarantees amounted to about $16 billion.
- At the end of 1985, the Government held $257 billion in its direct loan portfolio and it had guaranteed another $410 billion. Government-sponsored enterprises, which are not in the budget, had $370 billion in loans outstanding.

By directing credit toward favored borrowers, the Government forces unsubsidized borrowers to pay more for the credit they receive and "crowds out" many other potential borrowers.

ADMINISTRATION PROPOSAL

Under the administration's proposal, a wide range of direct loan and loan guarantee programs would be eliminated or sharply reduced over the next 5 years. As discussed in other fact sheets:

- direct loans made by the Small Business Administration, the U.S. Export-Import Bank, the community development block grant program, the Farmers Home Administration, the Overseas Private Investment Corporation, the Maritime Administration, and the Economic Development Administration would be phased out after 1987; and

- loan guarantees would no longer be provided by the Small Business Administration, beginning in 1987. FmHA rural housing would be folded in to HUD vouchers.

Other programs will be phased out beginning in 1987, including the:

- Rural Electrification Administration (REA);
- Maritime Administration's ship construction guarantees;
- Agency for International Development housing guarantee program;
- college housing loans (with a rescission of loan authority proposed in 1986);
- railroad rehabilitation loans; and
- Environmental Protection Agency loans.

Some of these programs have outlived their usefulness.

- The Rural Electrification Administration, for example, was created in 1935 to provide electricity to rural areas. Despite the fact that 99% of the Nation's farms have electricity, REA still lends hundreds of millions of dollars a year, sometimes at interest rates of 5%. Furthermore, most borrowers have the financial capability to meet their needs in private credit markets.

Other Federal programs will shift the focus of their credit activities from direct loans to loan guarantees.

- The Farmers Home Administration's agriculture credit program will use guarantees for private financing to identify and serve viable, near-commercial-caliber farmers who are unable to obtain private credit without a guarantee. FmHA will target direct loans to the most needy farm operators who can demonstrate financial viability if they obtain such assistance.

CREDIT MANAGEMENT REFORMS

Credit User Fees

Federal credit programs provided an estimated $16 billion in financial subsidies in 1985. Because many of these subsidies were unintentional or misdirected, the President's budget proposes higher interest rates, loan guarantee fees, and administrative and penalty costs.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Offsetting collections, gross	1,389	2,311	2,837	2,938	2,799	3,207	3,258
Offsetting collections, net	67	270	276	277	277	279	280
President's budget:							
Offsetting collections, gross	n.a.	2,315	3,142	3,167	3,273	3,792	4,376
Offsetting collections, net	n.a.	270	482	398	587	647	647
Deficit reduction:							
Offsetting collections, gross	n.a.	4	305	229	474	585	1,118
Offsetting collections, net	n.a.	n.a.	206	121	310	368	367

PROGRAM HISTORY AND CURRENT STATUS

In most Government loan programs, the interest rates charged borrowers are set in legislation, usually at the level of yields on Treasury instruments of equivalent maturities. In some programs, the interest rate is specified, such as at 5% in the Rural Electrification Administration (REA) program.

- A Treasury interest rate does not compensate the Government for the credit risk it bears in most loan programs.
- Fixed interest rates, such as REA's, mean that when market rates change, there are fluctuating degrees of subsidy to borrowers and uncertain budgetary costs for the Government.
- In loan guarantee programs, fees (either as origination fees or as annual fees) are charged, but they do not come close to compensating the Government for the increasingly heavy costs it bears when borrowers default.
- Unlike private financial intermediaries, the Government does not charge borrowers for additional administrative costs it incurs to handle defaults.

ADMINISTRATION PROPOSAL

As the following fact sheet discusses, the President's budget proposes user fees for Government-sponsored enterprises and the Government National Mortgage Association. Credit user fees for the Federal Housing Administration are also discussed in a separate fact sheet.

The administration also proposes higher interest rates for a number of programs, including:

- The REA, which will increase its rate to that charged by Treasury plus 1 1/8%. REA's current 5% rate is significantly below the equivalent market rate of 12% in 1985.
- The Bureau of Reclamation loan program, which will raise its interest rate to that charged by Treasury plus 1/8%.

The administration proposes increases in upfront fees and, in some cases, the institution of new fees, for a number of programs including:

- agricultural credit insurance fund;
- Veterans Administration loan guarantee fund and vendee loans;
- Federal Housing Administration single- and multi-family housing insurance; and
- Commodity Credit Corporation export credit loans.

The administration also proposes that the Federal Financing Bank (FFB) be allowed to charge a fee to all its borrowers sufficent to eliminate the unintended interest subsidy they receive when they use the FFB.

- The Federal Financing Bank (FFB) was designed to serve as a financial intermediary for the efficient financing of obligations issued, sold, or guaranteed by Federal agencies.
- Its ability to use the efficient, highly liquid Treasury securities market means that FFB borrowers avoid paying premiums that might range as high as 1.5% above Treasury yields.

The FmHA agricultural credit programs administer direct and guaranteed loans for farm ownership, soil and water conservation, farm operations, and emergency disaster.

- In FY 1985, 6% of direct farm loan obligations were priced at interest rates as much as 500 basis points below Treasury rates.
- In an effort to recoup some of the administrative and servicing costs, a 1% upfront fee on direct loans has been proposed.

The Veterans Administration home loan guarantee program allows an eligible veteran to buy a home with no money down.

- For many years, program financing received relatively little scrutiny outside the VA. Funding shortfalls were covered by $1.2 billion in internal transfers between 1978 and 1984, until internal sources of funds were exhausted. Between 1984 and 1986, appropriations totaling $767 million have been necessary to keep the program in operation, in addition to a 1% loan origination fee (raised from 1/2% in 1984).
- This continuing drain has occurred mainly because the high foreclosure rates experienced during the recession of the early 1980's have continued, despite a return to prosperity in other aspects of the housing industry.
- The administration's proposal to increase the fee to 2% in 1987, and in steps to 3.8% by 1990, will put the VA loan guaranty program on a solid financial footing.

CREDIT MANAGEMENT REFORMS

Federal and Federally Sponsored Credit Agencies

Congress has created several Federal and federally sponsored credit agencies that, because of implicit government subsidies, reallocate (and lower the cost of) credit to certain sectors of the economy, thereby reducing credit opportunities for other sectors of the economy not serviced by these agencies. The 1987 budget phases in a fee on these agencies' securities issues to recapture these subsidies, reducing the deficit by an amount rising to $1.3 billion by 1991 and equalizing credit opportunities with other sectors of the economy.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Offsetting collections							
President's budget:							
Offsetting collections			60	289	589	900	1,251
Deficit reduction:							
Offsetting collections			60	289	589	900	1,251

PROGRAM HISTORY AND CURRENT STATUS

Over the past 70 years, the Federal Government has created a number of financial intermediaries that allocate credit to certain sectors of the economy. They include the:

- Government National Mortgage Association ("Ginnie Mae");
- Federal National Mortgage Association ("Fannie Mae");
- Federal Home Loan Mortgage Corporation ("Freddie Mac");
- Student Loan Marketing Association ("Sallie Mae");
- Farm Credit System; and
- Federal Home Loan Banks.

These agencies were initially created to:

- provide supplemental sources of funds to areas of the country experiencing capital shortages; and
- diversify risk from small geographic areas to the entire financial system.

As the capital markets expanded, there was less need for the Federal Government to provide this credit-equalizing, risk-diversifying role. Over time, ownership of all of the agencies except Ginnie Mae became private. However, these "private" agencies kept their Federal charter and maintained ties to the Federal Government.

These Federal ties confer unique privileges not available to other privately owned companies including:

- Debt and pass-through securities they issue are treated the same as Treasury debt by the Federal Reserve System, commercial banks, and thrifts, thus widening their market compared with private securities.
- They have standby borrowing authority from the U.S. Treasury ranging up to $4 billion.
- Their securities are exempt from many Federal regulations.

As a result, these credit agencies, as well as the federally owned Ginnie Mae, issue securities at yields of at least one-tenth to one-half of 1 percentage point less than if they were completely private firms.

- This privileged borrowing status has facilitated rapid growth in their total outstanding obligations that has crowded out borrowers in other industries and escalated the Federal Government's cost of borrowing.
- From 1970 to 1984, total U.S. business fixed investment grew by 310%, while credit extended by these entities increased by nearly 1,600%.
- By 1985 these agencies' obligations totalled over $600 billion, they were absorbing $1 out of every $8 raised in the U.S. credit markets in that year, and they had grown more than four times as fast as corporate debt and business investment since 1970.
- This growth has eclipsed investment growth in manufacturing and other sectors vital to rebuilding America's international economic competitiveness.

ADMINISTRATION PROPOSAL

The 1987 budget proposes to phase in fees for these agencies. The fee will be structured differently for each entity but will be tied to the level of new securities issues.

- The fees will eventually eliminate the special advantages these agencies enjoy in competition with private financial institutions performing similar functions.
- Once fair competition develops, the administration hopes these entities will seek repeal of their ties to the Federal Government in order to compete freely and equally with their private sector competitors.

Increasing the fees charged by these agencies will increase economic efficiency and reduce the deficit by:

- increasing the availability of credit and lowering its costs for those sectors not served by one of these agencies—especially industries requiring new investments to maintain their international competitiveness;
- capturing the value to the private agencies of the advantages attendant to their Government relationship;
- eliminating the interest rate advantage their securities enjoy in competition with truly private participants in the marketplace; and
- reimbursing the Government for these advantages.

Increasing Ginnie Mae fees will eliminate the interest rate advantage its securities enjoy relative to private institutions and facilitate the privatization of Ginnie Mae.

CREDIT MANAGEMENT REFORMS

Loan Asset Sales

The Federal Government provides billions of dollars of direct loans to individuals, businesses, and State, local, and foreign governments. The President's budget proposes to reduce the presence of the Government in the financial marketplace by beginning to sell the Federal direct loan portfolio.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Offsetting collections	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
President's budget:							
Offsetting collections, gross			2,024	1,468	1,036	661	321
Income foregone			298	721	1,066	1,348	1,415
Deficit reduction:							
Offsetting collections, net			−1,726	−747	+30	+687	+1,094

Note.—Gross collections are estimates of what private investors will pay for the loan assets being offered for sale. Net collections subtract from gross collections the principal and interest payments that are foregone by the Government after the loan assets are sold.

PROGRAM HISTORY AND CURRENT STATUS

The Federal Government's portfolio of direct loans has expanded greatly over the past two decades and had a book value of $257 billion at the end of 1985.

- The Federal Government is not as efficient as the private sector in managing its direct loan portfolio. For example, the delinquency rate on Farmers Home Administration's farm loans is about 40%.
- The Federal Government does not show anywhere in its accounts the market price of its loans. This means the public does not know the true cost of the Federal loan portfolio.

ADMINISTRATION PROPOSAL

The administration proposes that the Federal Government begin to sell a portion of its direct loan assets. Under a pilot program, the Government would sell off $4.4 billion in book value loans in 1987.

- The pilot program would include a representative sample of Federal loan assets—both good paper and bad paper would be sold without a Federal guarantee of repayment.
- The sale of loan assets is estimated to produce gross revenues of $2.0 billion in 1987. This represents an estimated average return of 46 cents on a dollar of nominal loan value.
- This proposal assumes a fixed amount of loans are sold under the pilot program. Additional loans are not added for sale after the original amounts are sold. Consequently, gross revenues decline after 1987 as the face value amount of loans sold decreases.

The pilot program would serve two primary purposes:

- It would allow agencies to reduce the administrative costs associated with servicing their loan portfolio. Loan programs with large numbers of defaulted loans or programs proposed for termination fall into this category and include: defaulted guaranteed student loans; college housing loans; higher education facility loans; Small Business Administration business and investment loans, and disaster loans; Veterans Administration vendee loans; Federal Housing Administration loans; rural housing loans; and rural development loans.
- It would provide the Government with an objective market price for its loans. This supplies information that will aid future decisions about allocating scarce Federal credit resources. Loan programs that fall into this category are: national direct student loans; Housing and Urban Development rehabilitation loans; Rural Electrification Administration loans; and rural telephone bank loans.

FEDERAL PERSONNEL

Civil Service Retirement

The civil service retirement system (CSRS) provides retirement, disability, and survivor benefit coverage to 2.7 million Federal employees, as well as to 2 million retirees, survivors, and dependents. The President's budget proposes reforms to conform the program more closely to private sector practice.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Receipts (BA)	40,194	41,870	43,448	46,146	48,469	50,166	52,273
Outlays	23,092	24,069	25,410	27,145	28,886	30,624	32,296
President's budget:							
Receipts (BA)	n.a.	41,870	45,419	48,335	50,446	51,822	53,555
Outlays	n.a.	24,069	24,743	25,822	26,941	27,996	29,128
Deficit reduction:							
Receipts	n.a.	....	937	1,249	1,233	1,214	1,244
Outlays	n.a.	....	667	1,322	1,946	2,628	3,167
Total	n.a.	....	1,604	2,571	3,179	3,842	4,411

Note.—BA represents receipts collected by OPM's retirement trust fund from both employees and employers. The deficit reduction in receipts reflects only the increased receipts from employees and the District of Columbia.

PROGRAM HISTORY AND CURRENT STATUS

Since its inception in 1920, the civil service retirement system (CSRS) has grown into the Nation's third largest entitlement program.

- Benefits have been liberalized to include full retirement benefits as early as age 55, and cost-of-living allowances (COLA's) that, between 1969 and 1976, exceeded inflation by 1% biannually. Although COLA's have since been scaled back to the Consumer Price Index (CPI) and awarded on an annual basis, much remains to be done to bring program costs under control.
- In 1985, approximately 88,000 Federal employees retired at an average age of 60.
- Payments to Federal retirees have skyrocketed from $2.8 billion in 1970 to $25 billion in 1986.

All recent studies confirm that the current Federal pension system is far more generous than its private sector counterparts, both in the benefits provided and in their associated costs.

- Only 3% of all private pensions are fully and automatically adjusted for inflation. Federal retiree benefits are fully indexed to the CPI.
- More than half of all private sector workers collect no employer-provided pension and must rely solely on social security, with benefits 2 1/2 times lower, on average, than those of a Federal pensioner. On the other hand, approximately 80% of all civil service recipients over age 62 also collect some social security benefits.

- For private workers, full retirement benefits are most often not available until age 65, when social security is payable. Federal employees may retire with full benefits as early as age 55.

Consequently, Federal retirees enjoy retirement benefits that are significantly higher than the rest of the Nation's retirees.

- Nearly one-third (32%) of all Federal retirees have incomes exceeding $20,000; only 10% of non-Federal retirees are that well off.
- More than two-thirds (67%) of all retirees nationwide live on less than $10,000 per year; less than one-quarter (23%) of Federal retirees have incomes below that level.

American taxpayers have been forced to assume an unacceptable share of civil service retirement system (CSRS) financing.

- Only 20% of the cost of benefits provided under CSRS is financed by employees. Employing agencies contribute an additional 20%. The remaining 60% of the cost is paid by the general taxpayer. This is a substantial taxpayer subsidy for middle and upper income Federal retirees that provides benefits far more generous than most taxpayers are receiving.

ADMINISTRATION PROPOSAL

The administration's reform proposals would reduce this excessive and unintended subsidy for middle and upper income Federal retirees and seek to conform Federal retirement policy more closely to the private sector by:

- eliminating the 1987 COLA and limiting future COLA's to the percentage change in the CPI minus 2 percentage points;
- reducing the benefits of early retirees by 2% per year for those retiring before age 62 to capture some of the extra cost to the Government of early retirement;
- changing the basis for determining pension payments from the highest 3-year average salary to the highest 5-year average salary to conform with private sector practice;
- placing Federal employees under the same rules as social security for such categories as adult student benefits, the minimum benefit, and pre-retirement age survivor benefits to surviving spouses who have care of minor children (Minimum and adult student benefits are not available to social security recipients. Survivor benefits are not awarded until retirement age unless there are minor children.); and
- raising employee and employer retirement contributions by 2 percentage points in 1987. A contribution increase is long overdue. While Government contributions to CSRS have increased by 2,703% since 1960, employee contributions have increased by only 474%.

These proposed reforms:

- would reduce the Federal budget deficit by $15.6 billion over the next 5 years and begin the long overdue process of putting the Government pension and financial house in order; and
- would provide Federal employees having 20 or more years of service with annuities consistent with the levels originally expected by those employees when they accepted Federal employment.

FEDERAL PERSONNEL

Federal Employee Health Benefits

The Office of Personnel Management oversees the Federal employees health benefits program (FEHB), which provides basic hospital and major medical health protection for 2.3 million active employees and 1.5 million annuitants. The President's 1987 budget proposes that the FEHB program be fundamentally restructured to decrease program-wide costs and enhance competition among health carriers, with a savings of almost $5 billion over the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	1,342	1,537	1,469	1,837	2,131	2,367	2,691
Outlays	1,225	673	1,866	1,840	2,027	2,342	2,635
President's budget:							
Budget authority	n.a.	937	1,147	1,191	1,306	1,376	1,441
Outlays	n.a.	683	680	1,163	1,237	1,299	1,357
Deficit reduction:							
Outlays	n.a.	–11	1,186	677	790	1,043	1,278

PROGRAM HISTORY AND CURRENT STATUS

The FEHB, established in 1959, is the only large nationwide multiple-choice employer health insurance program in existence. The program covers 10 million enrollees, dependents, and survivors, and offers 300 different health plans.

- Over the last 10 years, Government program costs have quadrupled, while the number of active employees has remained constant at 2.3 million. During the same period, the number of annuitant participants has increased by one-half million.
- Health premiums are negotiated annually between OPM and the carriers prior to the annual "open season" that allows enrollees the opportunity to switch plans. Enrollees and the Government share the premium costs—the Government generally paying 60% and the employees 40%. (For certain lower cost plans, the Government's share can be as much as 75%.)
- In 1981, the FEHB program experienced a financial crisis. Health carrier reserves had become depleted. OPM responded by tightening administration of the program and controlling costs by increasing enrollee deductibles and co-payments.
- As a result of these changes, enrollee utilization of services decreased dramatically. Medical inflation also declined sharply. By 1985, carrier-held reserves had accumulated surplus funds of $1.4 billion.

Several of the largest carriers have now proposed to offer rebates totaling $1.1 billion to eliminate excess funds in their reserves.

- Since current law permits rebates only to active employees and the Government, the administration has requested Congress to pass legislation to permit annuitants to receive rebates as well.

ADMINISTRATION PROPOSAL

Under the administration's proposal, the Federal Government would:

- restructure the formula for determining the Government contribution for enrollee premiums by using a program-wide premium average to establish a fixed-dollar amount of Government contribution for all plans. This amount would be adjusted upward each year by the GNP deflator;
- decrease Government intrusion into the benefit design and rate-setting of the health carriers, and rely on market forces. The new reforms would encourage carriers to offer the most attractive benefits at the lowest rates, subject to minimum requirements with respect to catastrophic protection; and
- encourage employees and annuitants to select more cost-effective plans by establishing a fixed Government contribution for any health insurance plan rather than sharing a fixed percentage of a plan's costs. This employee shopping incentive would be reinforced by including cash rebates of up to 40% of the Government contribution if enrollees selected plans costing less than the Government contribution.

The administration continues to be concerned about the potential for FEHB cost increases.

- By encouraging enrollees to make cost-effective selections of health plans reinforcing competition and choice, and allowing market forces to set premium rates, FEHB costs can be controlled.
- Under the reform, FEHB costs would rise in a predictable fashion with the GNP deflator, and the Government's exposure to steep increases in premium rates would be limited.
- A further effect of the reform would be the greater cost consciousness by enrollees when selecting a health plan, especially since cash rebates for lower cost plans would be available.

To implement this proposal, the administration intends to:

- encourage competition among health benefits plans by opening the program to a broader range of private insurance carriers, allowing more choice to employees, and encouraging price competition among plans;
- reduce administrative expenses for the entire program by curtailing Government involvement in the health carriers' plans and their relationship with the enrollees; and
- guarantee a 30-day open enrollment season in advance of any changes in benefits or premiums under approved health plans.

FEDERAL RESOURCE MANAGEMENT

Strategic Petroleum Reserve

The strategic petroleum reserve (SPR) is a Federal stockpile of crude oil intended to help the Nation cope with severe disruptions in world oil supplies. The President's budget proposes an indefinite moratorium on further development and fill of the SPR once the stockpile reaches 500 million barrels, which would reduce the budget deficit by a little under $400 million per year during 1986–1991.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Budget authority	2,050	108	187	480	530	540	544
Outlays	1,833	637	633	530	528	539	541
President's budget:							
Budget authority	n.a.	108	....	102	160	167	171
Outlays	n.a.	637	234	156	160	166	170
Deficit reduction:							
Outlays	n.a.	....	399	374	368	373	371

PROGRAM HISTORY AND CURRENT STATUS

The SPR was authorized in 1975 by the Energy Policy and Conservation Act.

- The Department of Energy is developing the reserve at six underground storage sites in Louisiana and Texas.
- Current long-term plans call for building a 750 million barrel stockpile.

Key to the administration's energy security policy is reliance on market forces to balance energy supply and demand.

- The SPR would work through market forces in a disruption by supplementing oil supplies to reduce upward pressure on world prices and potential loss in economic output.
- The administration's commitment to SPR is evidenced by the increase in oil stored from 100 million barrels in 1981 to nearly 500 million barrels today.

ADMINISTRATION PROPOSAL

The administration proposes an indefinite moratorium on development of the SPR.

- Oil fill will be suspended in 1986, once the reserve contains 500 million barrels of crude oil.
- This inventory, two-thirds of the 750 million barrel goal, equals about 120 days of net U.S. oil imports and about 300 days worth of imports from OPEC countries.

- It provides more protection than envisioned when plans for the 750 million barrel SPR were set, which were based on oil supply and demand forecasts prepared in the late 1970's.

Over the past 5 years, due in part to the dismantling of oil price controls, the Nation has substantially reduced its vulnerability to supply disruptions by increasing both efficiency of oil use and U.S. oil production. As a result, U.S. oil imports and the need for additional SPR oil have dropped dramatically.

- In 1977, net petroleum imports were 8.6 million barrels per day—46% of U.S. consumption—and were projected to reach 11 million barrels per day by 1985 and nearly 14 million in 1990.
- Actual 1985 imports (through September) were only 4 million barrels per day—26% of consumption—and are now projected to be less than 6 million in 1990.
- In 1977, a 750 million barrel SPR was expected to equal only 68 days of net imports in 1985 and 54 days in 1990. Today, a 500 million barrel SPR would provide much more coverage—about 120 days of 1985 net imports and about 82 days of currently projected 1990 imports.
- Other factors that lessen need for further SPR fill include the growth of strategic oil stocks held by our allies and the growth of the world's excess oil production capacity from 3 million barrels per day in 1980 to 10-11 million barrels today. Further, the very existence of the SPR reduces any impulse on the part of foreign suppliers to attempt another embargo.

From January through September 1986, ongoing construction will be completed at SPR development sites, and the sites will be prepared for a standby mode, ready for drawdown or resumption of development if changes in oil market conditions so warrant.

- Work will continue in both 1986 and 1987 on pump out and transport improvements to permit drawdown and distribution of SPR oil at a rate of 3 million barrels per day.
- No new budget authority is needed in 1987 since unobligated balances of funds appropriated in prior years are sufficient to maintain SPR facilities in a standby readiness state.

FEDERAL RESOURCE MANAGEMENT

National Defense Stockpile

The national defense stockpile is a reserve of metals and other non-fuel materials to ensure adequate supplies of critical and strategic materials to meet national security needs in the event of a national emergency. The President's budget proposes to modernize the stockpile by establishing new stockpile goals, acquiring needed material, and selling $2.25 billion of unnecessary materials over the next 5 years.

FUNDING SUMMARY

(In millions of dollars)

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Current services:							
Outlays	−241	−273	30	30	30	30	30
President's budget:							
Outlays	n.a.	−273	−220	−470	−470	−470	−470
Deficit reduction:							
Outlays	n.a.	....	250	500	500	500	500

PROGRAM HISTORY AND CURRENT STATUS

The materials stockpile was established after World War II. Most of the existing $10.1 billion in stockpiled materials was acquired between the start of the Korean War and 1956. In 1979, the previous administration set stockpile goals for over 60 non-fuel materials, with a total value of $16.3 billion (May 1985 prices).

- Of the existing $10.1 billion in stocks, only $6.6 billion matches requirements in that $16.3 billion plan.
- To fulfill this plan would thus cost $9.7 billion.

In 1982, the National Security Council undertook an interagency study to reestimate stockpile requirements using this administration's policy and planning assumptions.

- In 1985, the study was completed and revealed that the stockpile requirements for most materials were substantially overstated due to inconsistent and erroneous assumptions used in the previous analysis.
- The administration announced the results of the study, but has delayed forwarding to Congress the new goals in order to allow Congress adequate time to review the study results.

ADMINISTRATION PROPOSAL

Under this stockpile modernization proposal, the Federal Government would:

- establish a stockpile goal of $700 million for stocks of antimony, chromium, cobalt, germanium, graphite, mica, quartz, tantalum, and titanium only;

- retain $6.0 billion of the over $10.1 billion currently in inventory but not required to meet the $700 million goal as a supplemental reserve; these materials will provide additional supplies over and above those determined to be necessary to meet essential needs;
- purchase material over the next 5 years to fill the unmet goal for $150 million of germanium. Additional purchases may be made during FY 1988-91 depending on the outcome of a NSC study on national security requirements for exotic materials; and
- sell $2.25 billion worth of surplus materials at a rate not to exceed $500 million per year over the next 5 years, using the proceeds to acquire needed materials and to reduce the deficit.

This proposal strengthens national security and also reduces the budget deficit by disposing of stockpile materials that are no longer needed to meet current and projected national security requirements.

The proposal will be accomplished in consultation with the appropriate committees and Members of Congress. Implementation would begin during FY 1987 with:

- purchase of $30 million of germanium; and
- initiation of a disposal program with sales of surplus materials of $250 million during the first year.

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